THE STATE OF THE U.S.-FLAG MARITIME INDUSTRY

(115-32)

HEARING

BEFORE THE

SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION OF THE

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE HOUSE OF REPRESENTATIVES

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Committee on Transportation and Infrastructure U.S. House of Representatives Washington DC 20515

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January 12, 2018

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SUMMARY OF SUBJECT MATTER

TO: Members, Subcommittee on Coast Guard and Maritime Transportation
FROM: Staff, Subcommittee on Coast Guard and Maritime Transportation
RE: Hearing on "The State of the U.S. Flag Maritime Industry"

PURPOSE

The Subcommittee on Coast Guard and Maritime Transportation will hold a hearing on Wednesday, January 17, 2017, at 10:00 a.m., in 2167 Rayburn House Office Building to examine the state of the U.S. flag Maritime Industry. The Subcommittee will hear testimony from the U.S. Coast Guard (Coast Guard or Service), the Maritime Administration (MARAD), and representatives of the maritime industry.

BACKGROUND

U.S. Merchant Marine

The U.S. merchant marine is the fleet of U.S. documented (flagged) commercial vessels which carries goods to and from the United States during peacetime and becomes a naval auxiliary to deliver troops and war materiel during wartime. The merchant marine also carries cargoes in the U.S. domestic trade. These vessels are operated by a cadre of U.S. licensed officers and engineers and unlicensed seafarers. Throughout our history, the Navy has relied on U.S. flagged commercial vessels to carry weapons and supplies and ferry troops to the battlefield. During Operations Enduring Freedom and Iraqi Freedom, U.S. flagged commercial vessels transported 63 percent of all military cargoes moved to Afghanistan and Iraq. Government-owned sealift vessels activated from reserve status and crewed by American mariners carried an additional 35 percent of the total cargo.

The merchant marine was formally recognized in statute with the passage of the *Merchant Marine Act of 1920* (46 U.S.C. Subtitle V). Section 50101(a) of title 46, United States Code, states that "[i]t is necessary for the national defense and the development of the domestic and foreign commerce of the United States that the United States have a merchant marine...". Sections 50101(b) and 51101 of title 46, United States Code, establish that "[i]t is the policy of the United States to encourage and aid the development and maintenance of the merchant

marine..." and that "merchant marine vessels of the United States should be operated by highly trained and efficient citizens of the United States...".

Currently, there are more than 41,000¹ non-fishing related commercial vessels flagged and operating in the United States. The vast majority of these vessels are engaged in domestic waterborne commerce, generally referred to as the "U.S. coastwise trade," moving 115 million passengers² and nearly \$300 billion worth of goods³ between ports in the United States on an annual basis. Each year, the domestic coastwise fleet carries nearly 900 million tons (877 million in 2016) of cargo⁴ through the inland waterways, across the Great Lakes, and along the Atlantic, Pacific, and Gulf of Mexico coasts, contributing \$100 billion in economic output.

Of the over 41,000 U.S. flagged vessels, approximately 82 are employed currently in international commerce moving goods between U.S. and foreign ports. Over the last 35 years, the number of U.S. flagged vessels sailing in the international trade dropped from 850 to 82 vessels. The percentage of international commercial cargoes carried on U.S. flagged vessels has fallen from 25 percent in 1955 to approximately 1.5 percent today.⁷ Within the international U.S. flag fleet, 60 vessels are enrolled in the Maritime Security Program. Under this program, militarily useful oceangoing commercial vessels receive annual operating stipends of \$3.5 million to provide military sealift for the United States Transportation Command within the Department of Defense (DoD).

U.S. Shipbuilding Industry

The United States has a long tradition of producing some of the most modern and sophisticated vessels in the world. Today, U.S. shipyards of all sizes deliver a wide variety of commercial vessels including patrol boats, tugs, barges of all sizes, ferries, ocean going container and roll-on/roll-off (RORO) vessels, tankers, and oil and gas development support vessels among many others. The U.S. commercial shipyard industry, as well as its supplier base, is essential to maintaining the government shipbuilding and ship repair industrial base.

According to a 2013 report issued by MARAD, the U.S. shipbuilding and repairing industry is comprised of establishments that are primarily engaged in operating shipyards (e.g., fixed facilities with drydocks and fabrication equipment). Shipyard activities include ship construction, repair, conversion and alteration, as well as the production of prefabricated ship

¹ USACE, Waterborne Transportation Lines of the United States Calendar Year 2016, http://www.navigationdatacenter.us/veslchar/pdf/WTLUS2016.pdf

² National Strategy for the Marine Transportation System: Channeling the Maritime Advantage 2017-2022, http://www.cmts.gov/downloads/National_Strategy_for_the_Marine_Transportation_System_October_2017.pdf

³ Economic Contribution of the US Tugboat, Towboat, and Barge Industry, https://www.marad.dot.gov/wpcontent/uploads/pdf/Econ-Impact-of-US-Tugboat-Towboat-and-Barge-Industry-lh-6-22-17.pdf ⁴ The U.S. Waterway System 2016 Transportation Facts & Information,

http://www.navigationdatacenter.us/factcard/FactCard2016.pdf

⁵ American Waterways Operators, Industry Facts, http://americanwaterways.com/initiatives/jobs-economy/industryfacts

⁶ U.S. Department of Transportation Maritime Administration United States Flag Privately-Owned Merchant Fleet Report November 2017

⁷ MARAD Calculation using CBP, Census, and commercial data sources

⁸ This program is authorized under Chapter 531 of title 46, United States Code.

and barge sections and other specialized services. The industry also includes manufacturing and other facilities outside of the shipyard, which provide parts or services for shipbuilding activities within a shipyard, including routine maintenance and repair services from floating drydocks not connected with a shipyard.

Currently there are 117 shipyards in the United States, spread across 26 states, that are classified as active shipbuilders. In addition, there are more than 200 shipyards engaged in ship repairs or capable of building ships, but not actively engaged in shipbuilding. The majority of shipyards are located in the coastal states, but there also are active shipyards on major inland waterways such as the Great Lakes, the Mississippi River, and the Ohio River. Employment in shipbuilding and repairing is concentrated in a relatively small number of coastal states, with the top five states accounting for 62 percent of all private employment in the shipbuilding and repairing industry. In 2011, the U.S. private shipbuilding and repairing industry directly provided 107,240 jobs, \$7.9 billion in labor income, and \$9.8 billion in gross domestic product (GDP) to the national economy. Including direct, indirect, and induced impacts, on a nationwide basis, total economic activity associated with the industry reached 402,010 jobs, \$23.9 billion of labor income, and \$36.0 billion in GDP in 2011.

The federal government, including the U.S. Navy, U.S. Army, and U.S. Coast Guard, is an important source of demand for U.S. shipbuilders. While just one percent of the vessels delivered in 2011 (15 of 1,459) were delivered to U.S. government agencies, eight of the 11 large deep-draft vessels delivered were delivered to the U.S. government.

U.S. Merchant Marine Laws and Programs

Since 1789, Congress has passed several laws to help keep the U.S. merchant marine competitive in the global economy and maintain a sealift and shipyard industrial capacity necessary for our national security. Current laws and programs include the Jones Act and the Military-to-Mariner Program.

Jones Act

The Jones Act first came into effect as part of the *Merchant Marine Act of 1920* to encourage the development of a strong merchant marine for both national defense and economic security. The Jones Act contains a number of provisions designed to encourage a robust U.S. shipbuilding capacity and employment opportunities for U.S. mariners:

- 1. U.S. Owned and Flagged Chapter 551 of title 46, United States Code, requires that merchandise and passengers being transported by water between two points in the United States must travel on vessels owned by U.S. citizens and registered or "flagged" in the United States with an endorsement by the Coast Guard to participate in the coastwise (also known as "Jones Act") trade;
- U.S. Built Chapter 121 of title 46, United States Code, requires vessels to be eligible for a coastwise endorsement to be built in the United States. Chapters 551 and 801 of title 46, United States Code, also place restrictions on the

involvement of foreign owned, built, and flagged vessels in towing, dredging, and salvage activities in U.S. waters;

- U.S. Crewed Chapter 81 of title 46, United States Code, requires the master, all
 of the officers, and at least three-quarters of the crew to be U.S. citizens in order
 for a vessel to be flagged in the United States; and
- 4. Rebuild/Reflag Prohibition Chapter 121 also prohibits vessels that were once eligible to engage in the U.S. coastwise trade and then later sold to a foreign citizen, documented under a foreign registry, or rebuilt outside the United States from engaging in the coastwise trade (a vessel may be considered rebuilt when work performed on its hull or superstructure constitutes more than 7.5 percent of the vessel's steelweight prior to the work).

The Coast Guard is responsible for reviewing applications from vessel owners seeking a coastwise endorsement to participate in the Jones Act trade. The Coast Guard determines whether the owners meet the U.S. citizenship requirements and whether the vessel was built in the United States, or the extent to which it was rebuilt outside the United States, before it will issue a coastwise endorsement.

U.S. Customs and Border Protection (CBP) determines whether the cargo to be moved on a vessel constitutes "merchandise" under section 55102 of title 46, United States Code. CBP also determines whether the movement of that cargo is transportation and subject to the Jones Act. The U.S. flagged industry has raised concerns about whether CBP is adequately enforcing the Jones Act in the Gulf of Mexico. In response, CBP established the National Jones Act Division of Enforcement within its New Orleans Field Office, but concerns still exist among U.S. flagged coastwise operators.

Section 501 of title 46, United States Code, provides a mechanism to waive the Jones Act and other vessel navigation and inspection laws. The Jones Act can be waived by the Secretary of Homeland Security under subsection 501(a), at the request of the Secretary of Defense and to the extent the Secretary of Homeland Security considers it necessary in the interest of national defense. Under subsection 501(b), the Secretary of Homeland Security may waive requirements for the use of a coastwise endorsed vessel for the purposes of national defense, only after a determination by the MARAD Administrator that no U.S. flagged, owned, built, and crewed vessels are available. Both authorities have been used sparingly by the Executive Branch, and most commonly to respond to instances of natural disasters or national emergencies.

As a recent example, in response to the need to move fuel supplies to areas affected by Hurricanes Harvey and Irma, the Secretary of Homeland Security used the subsection 501(a) authority on September 8, 2017, to issue a waiver on the use of a coastwise endorsed vessel for a seven day period to facilitate the movement of refined petroleum products (including gasoline, diesel, and jet fuel) shipped from New York, Pennsylvania, Texas, and Louisiana to South Carolina, Georgia, Florida, and Puerto Rico. Then on September 11, 2017, the Secretary extended the waiver through September 22, 2017. The extension also expanded the waiver's geographic scope -- adding New Jersey,

Delaware, Maryland, New Mexico, Mississippi, Alabama, and Arkansas to the list of states of origin; and adding North Carolina, Virginia, and West Virginia to the list of receiving states for refined petroleum products. On September 28, 2017, the Secretary again used the 501(a) authority to issue a 10-day waiver to facilitate movement of all products to be shipped from U.S. coastwise points to Puerto Rico to facilitate emergency response after Hurricane Maria. The U.S. flagged industry did not support the use of the 501(a) authority in either case, stating there was adequate U.S. flagged vessel capacity. In the case of Puerto Rico, cargo distribution was stalled at port terminals due to lack of functioning island infrastructure and other factors needed to move the supplies inland, not the lack of capacity of U.S. flagged vessels.

Military-to-Mariner Program

A healthy maritime sector is vital to our economy and national security. A significant proportion of U.S. mariners are nearing retirement age, prompting a potential future shortage of available and experienced maritime professionals which could impact military sealift and U.S. maritime commerce. Trained mariners separating from military service (e.g., Navy, Marine Corps, Coast Guard, Army), could help compensate for a potential shortage. Maritime stakeholders are aware of this looming workforce attrition and have expressed concern that more should be done now to maximize the potential of this highly-trained, dedicated, and proficient labor pool.

Originally formed in 1992, the Merchant Marine Personnel Advisory Committee (MERPAC) was statutorily authorized in section 310 of the *Howard Coble Coast Guard and Maritime Transportation Act of 2014* (46 U.S.C. 8108). MERPAC advises the Secretary of Homeland Security, through the Commandant of the Coast Guard, on matters relating to personnel in the United States Merchant Marine including training, qualifications, certification, documentation, and fitness standards and other matters, as assigned. MERPAC meets twice a year and as of February 2017, has made 88 recommendations to streamline the process for military mariners to obtain their U.S. Merchant Mariner credentials and increase the participation of each military service in maintaining crosswalks and course approvals.

Section 305 of the Howard Coble Coast Guard and Maritime Transportation Act of 2014 (P.L. 113-281) encouraged opportunities for sea service veterans by authorizing the Secretary of Homeland Security to issue an officer endorsement to a military mariner who: (1) has at least three months of qualifying service on a vessel of the uniformed services within the seven-year period immediately preceding the date of application; and (2) satisfies all other requirements for such a license. Section 305 also requires the Secretary to issue a sea service letter to a member or former member of the Coast Guard within 30 days of making such a request for an officer endorsement.

Section 568 of the *National Defense Authorization Act for Fiscal Year 2017* (P.L. 114-328) requires the Secretaries of Defense and Homeland Security to report to Congress on how the DoD can better harmonize active duty training requirements for military service members with the credentialing requirements for similar civilian merchant marine industry positions. Additionally, the Secretaries were directed to

identify and rectify gaps that exist between current military standards and commercial credentialing standards. The DoD transmitted the report to Congress on September 28, 2017

<u>International Convention on Standards of Training, Certification and Watchkeeping (STCW)</u>

The STCW, sets qualification standards for masters, officers, and watch personnel on seagoing merchant ships. The STCW was adopted in 1978 by conference at the International Maritime Organization (IMO) in London, and entered into force in 1984. The IMO implements the convention which is designed to ensure global standards are in place to train and certify seafarers among all flag states. The Coast Guard enforces STCW requirements as implemented under U.S. law for U.S. flagged carriers.

In 2010, after a two-year comprehensive review of the entire STCW Convention and the STCW Code, the IMO adopted the "Manila Amendments". In 2011, the Coast Guard proposed changes to amend its regulations to fully harmonize and incorporate the requirements for national licenses with those of the Manila Amendments. On December 24, 2013, the Coast Guard published a Final Rule to incorporate the 2010 Amendments into U.S. regulations. Full implementation of the 2010 Amendments took effect on July 1, 2017.

⁹ August 1, 2011 Proposed Rule (RIN 1625-AA16) outlines the changes to U.S. regulations proposed by the Coast Guard.

WITNESS LIST

Panel I

Rear Admiral John Nadeau Assistant Commandant for Prevention Policy United States Coast Guard

Rear Admiral Mark H. Buzby, USN Ret. Administrator Maritime Administration

Panel II

Mr. Matt Woodruff Chairman American Maritime Partnership

Mr. Eric Ebeling President and Chief Executive Officer American Roll-On Roll-Off Carrier On behalf of USA Maritime

Mr. Aaron Smith President and Chief Executive Officer Offshore Marine Service Association

Mr. Matthew Paxton President Shipbuilders Council of America

Mr. Bill Van Loo Secretary Treasurer Marine Engineers' Beneficial Association On behalf of American Maritime Officers, Masters, Mates and Pilots, and The Seafarers International Union

THE STATE OF THE U.S.-FLAG MARITIME INDUSTRY

WEDNESDAY, JANUARY 17, 2018

House of Representatives,
Subcommittee on Coast Guard and Maritime
Transportation,
Committee on Transportation and Infrastructure,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:06 a.m. in room 2167, Rayburn House Office Building, Hon. Duncan Hunter (Chairman of the subcommittee) presiding.

Mr. HUNTER. The subcommittee will come to order. Good morn-

ing.

The subcommittee is convening today to review the state of the U.S.-flag maritime industry, including the U.S. merchant marine.

The Jones Act was enacted in 1920 as part of the Merchant Marine Act. It encouraged a strong merchant marine to support both national defense and economic security. For a vessel to move merchandise or passengers between two points in the United States, also called the coastwise trade, a vessel is required to be owned by a U.S. citizen, U.S. flagged, built in the United States, and crewed with U.S. mariners.

There are over 41,000 U.S.-flag vessels in the U.S. coastwise trade moving 115 million passengers and nearly \$300 billion worth of goods between U.S. ports on an annual basis. The use of a U.S. flagged, built, and crewed vessel in the domestic coastwise trade can be waived by the Secretary of Homeland Security in two ways under section 501 of title 46, United States Code.

The first waiver authority, outlined in subsection 501(a), is at the request of the Secretary of Defense for the purposes of national defense. The second, outlined in subsection 501(b), is also for the purpose of national defense; however, MARAD is required to make a determination that no U.S. vessel is available. The subsection 501(a) waiver authority was used by the Secretary of Homeland Security for responses to Hurricanes Harvey, Irma, and Maria. U.S industry raised concerns regarding the use of the waiver authority, as did we.

Out of the over 41,000 U.S.-flag vessels, there are only 82 vessels active in international commerce, down from 850 vessels 35 years ago. The United States has cargo preference requirements where a percentage of U.S. Government cargo, including international food aid, be transported on U.S.-flag vessels. One intention behind the requirement is to ensure a merchant marine—both vessels and mariners—remain available and capable to provide sealift capacity

in times of conflict or national emergencies. Out of those 82 vessels, 60 vessels participate in the Maritime Security Program which provides an annual stipend to military-useful oceangoing vessels to support military sealift operations.

So, without the MSP we would have 20 vessels that can operate

without a stipend, basically.

In order to maintain the capabilities necessary to assist military operations and continue to conduct coastwise trade operations, the U.S.-flagged fleet needs a strong, proficient pool of U.S. merchant mariners. Officials in the administration have reported to the committee that the active pool of U.S. merchant mariners is decreasing due to retirements and low recruitment rates.

To work to address any potential gaps, members of this subcommittee support increasing the opportunities for military mariners to transition into civilian mariners. Mariners in the Armed Forces have skills that can successfully translate into the civilian workforce. Military mariners just need to know about what civilian opportunities are available and how they can attain the proper certificates during their military career to successfully transition into a civilian career.

The subcommittee held two listening sessions in 2016 that included military and civilian participants to discuss what needs to be done to create a more seamless process for military mariners to transition into a civilian mariner career. In addition, the Department of Defense reported that in 2016 and 2017, the Navy, Army and Coast Guard participated in MERPAC meetings, conferences, and working groups to make further progress on this issue.

I look forward to discussing where we are now and the importance of ensuring the United States has a strong, stable merchant marine. The civilian mariner workforce is facing a potential shortage and military mariners can be a way to bridge any gaps, as well as provide an ongoing source of retired, experienced military mariners.

I thank our witnesses for being here today and I look forward to hearing their thoughts on issues regarding the state of the U.S.-flag maritime industry.

And I will now yield to Ranking Member Garamendi.

You are recognized.

Mr. GARAMENDI. I thank you, Mr. Chairman, I appreciate your testimony and laying out the issues before us. It has been almost 3 years now since we last convened an oversight hearing, although we did have the listening sessions on the status of the U.S. maritime industry. Thank you very much for acting on my suggestion, and scheduling this morning's hearing, as this is a perfect opportunity to assess where the industry stands and gather suggestions for issues that this subcommittee can take up in the second session of the 115th Congress.

We already realize several items deserve our dedicated attention. But by no means do these items represent the entire universe of

issues and challenges.

First and foremost, we cannot become complacent in our defense of the Jones Act and our efforts, along with many other organizations, some of whom will be testifying this morning, to raise public awareness of the need for and the many benefits that flow from this longstanding maritime policy that has stood for nearly a cen-

tury.

Second, we need to address the need to find new cargoes for the U.S.-flag vessels in both the international and coastwide trades. More cargo means more ships, and more ships mean more goodpaying maritime jobs that both directly and indirectly support the hundreds of thousands of U.S. workers and bolster national security. And, by the way, I have got some ideas on how we can do that. The export of oil and natural gas give us such an opportunity. But more about that later.

To this end, we need better enforcement of the existing cargo preference requirements, especially for the food aid shipments. We need to utilize new trades, such as the export of crude oil and natural gas. We also need to look creatively at how best to recapitalize our Nation's Ready Reserve, Military Sealift, and Maritime Secu-

rity Program Fleets.

In addition, if there is going to be an infrastructure bill this year—and I hope there is—we need to make sure that the infrastructure needs of our domestic maritime industries are not left behind at the dock. Moreover, we have to begin shaping a tractable plan to recruit and retain a new generation of licensed and unlicensed seafarers. The crew and cadre of mariners, which have served commerce and national security of the United States so admirably since the end of the Vietnam War, is quickly aging out, along with the ships.

It is imperative that the Federal Government, along with its partners in the State and maritime academies and maritime unions, develop a comprehensive plan to ensure that the absence of qualified and experienced mariners in the workforce does not become an Achilles heel limiting our military sealift operations and

our national security.

I am sure that our witnesses here this morning will offer their own suggestions. And with that thought in mind, I welcome the witnesses and look forward to engaging in the discussion.

Thank you, Mr. Chairman. I yield back.

Mr. HUNTER. I thank the gentleman from California. We will have two panels of witnesses today. On the first panel we will hear from Rear Admiral John Nadeau. Yes, you like that? Got it right—Assistant Commandant for Prevention Policy for the United States Coast Guard.

And Rear Admiral Mark Buzby—Mark "Buz" Buzby—U.S. Navy Retired, Administrator, Maritime Administration.

Admiral Nadeau, you are recognized to give your statement.

TESTIMONY OF REAR ADMIRAL JOHN P. NADEAU, ASSISTANT COMMANDANT FOR PREVENTION POLICY, U.S. COAST GUARD; AND REAR ADMIRAL MARK H. BUZBY, U.S. NAVY (RET.), ADMINISTRATOR, MARITIME ADMINISTRATION

Admiral Nadeau. Good morning, Chairman Hunter, Ranking Member Garamendi, and distinguished members of the subcommittee. I am honored to be here today to discuss the state of the U.S. maritime industry and the Coast Guard's role serving that industry.

Mr. Chairman, on behalf of all the Coast Guard's men and women, thank you for your leadership and strong support of the Coast Guard.

The Coast Guard offers enduring value to our Nation. It is the only branch of the U.S. armed services within DHS. It is uniquely positioned to secure our ports, protect the maritime transportation system, and safeguard America's national and economic security.

As the Commandant said, years of fiscal constraint and increasing mission demands have eroded our ability to fully execute our suite of missions and remain ready to effectively respond to all contingencies. We need to make investments to rebuild and sustain Coast Guard capability and capacity, including our marine safety

programs.

The Nation's Marine Transportation System includes 25,000 miles of waterway traveled by several thousand vessels serving 361 U.S. ports every day. This system supports more than 250,000 American jobs and over \$4.5 trillion of economic activity every year. This system connects American consumers, producers, manufacturers, and farmers, domestic and global markets, and provides access to our Nation's vast natural resources.

The Coast Guard ensures this system remains safe, secure, and resilient. A strong U.S. maritime industry enables us to protect U.S. interests and project power overseas. Ninety percent of the military equipment used by the Nation's warfighters is loaded in U.S. ports and delivered to theater on Coast Guard-inspected U.S.-flag vessels that are operated by Coast Guard-licensed, credentialed U.S. mariners.

Our support to the maritime industry is critical to our Nation's military readiness and national security. Our robust population of U.S. mariners is needed to maintain an effective military sealift capability.

Coast Guard and industry are working together to mitigate challenges facing mariners today. Our advisory committees contain experienced merchant mariners, educators to the maritime academies, and industry representatives. They help us identify strate-

gies to address challenges as they emerge.

Congress clearly recognizes the importance of having a sufficient number of qualified mariners. DoD and DHS are working together to implement the Military to Mariner program, and make it easier for military members to receive credit for experience, training, and qualification received while in the military. We have partnered with the Navy to establish a credentialing program and improved military member awareness of civilian-mariner opportunities. We have cut through redtape, and we continue to work closely with our fellow armed services to make improvements to this program.

We know a healthy mariner workforce requires a safe, secure, and competitive U.S. maritime fleet. The industry faces a number of challenges beyond those of the workforce, including an aging population of strategic sealift vessels. At the same time, the complexity and pace of change in the industry have never been greater. Industry is integrating new technology into vessels and facilities to improve efficiency and effectiveness, to increase capacity, and to reduce the environmental footprint. This activity is making ships, facilities, and ports, and the entire system more complex.

The use of third parties has helped industry and the Coast Guard evolve to keep pace with these changes. Today, like other flag states around the globe, the U.S. relies far more on third parties than ever before. The vast majority of vessels in our sealift fleet use third parties for many of their compliance activities. The third-party programs have gone from an option to a necessity.

The benefits of third parties are well documented. A study by the National Academies of Sciences that was directed by the subcommittee and published in 2016 concluded that our third-party programs provide additional technical expertise, promote innova-

tion, and reduce cost for the U.S. Fleet.

However, third-party programs are not infallible. Third-party programs require effective Coast Guard oversight and clear accountability to realize these benefits. The Coast Guard has the authority and competency we need. We will instill better governance, we will improve our policy and training, and we will provide increased accountability. We are also supporting a safe, secure, and competitive U.S. Fleet.

In closing, a healthy U.S. maritime industry and a robust pool of civilian mariners are vital to our Nation's economic prosperity and national security. The Coast Guard's regulatory, credentialing, and compliance programs are evolving to keep pace with industry change. We are focused on ensuring every one of our actions sustains a safe, secure, environmentally sound, and productive operation of the Marine Transportation System without imposing unnecessary costs or burdens.

Mr. Chairman, we thank you for this subcommittee, for your strong leadership and support of the Coast Guard. I ask that my written statement be entered into the record. Thank you.

Mr. HUNTER. Without objection.

Thank you, Admiral.

Admiral, you are recognized.

Admiral Buzby. Good morning, Chairman Hunter, Ranking Member Garamendi, and distinguished members of the subcommittee, thank you for inviting me to discuss the state of the U.S. maritime industry and the Maritime Administration's programs that support it.

Our country's military relies on U.S.-flag ships, crewed by volunteer American civilian mariners to move our combat forces' equipment and sustainment whenever and wherever it needs to go.

Three-quarters of MARAD's budget goes to programs that help to ensure that America has a viable commercial merchant marine, one with enough ships and enough qualified merchant mariners to meet our needs in peacetime and, critically, our emergency sealift during times of crisis.

Unfortunately, over the past few decades, the U.S. maritime industry has suffered significant losses, as companies, ships, and jobs moved overseas. Cargo is one of the main factors determining the

number of ships in the U.S.-flag fleet.
Since 1992, the number of U.S.-flag ships has dropped from 183 ships to 82 now. This leaves us at the lowest number in the deepsea fleet in recent history. That has, in turn, contributed to a loss of jobs available to U.S. citizen mariners and international trade. Today, due to the historically low number of ships, MARAD is concerned that there might not be enough qualified mariners to sustain a prolonged activation of the sealift fleet. I am working closely with USTRANSCOM, the U.S. Navy's Military Sealift Command, the U.S. Coast Guard, and the commercial maritime industry to develop plans to maintain an adequate number of trained mariners.

This coordinated effort includes advancing the Military to Mariner initiative, making it easier for transitioning veterans to obtain their mariner credentials based on their service experience. That is, however, only a small part of the solution. To reverse this trajectory, my initial priorities as Maritime Administrator have been to leverage the current mainstays of the merchant marine—the Jones Act, cargo preference, and the Maritime Security Program—and to rethink how we address long-term strategic issues facing the industry.

The Jones Act ensures the U.S.-flag fleet in domestic trade by requiring American built, owned, and crewed vessels to transport passengers and cargo between U.S. ports.

Cargo preference laws, which require shippers to use U.S.-flag vessels for oceanborne transport of certain cargoes purchased with Federal funds, help ensure that the U.S.-flag fleet has enough cargo to remain viable in international trade.

The Maritime Security Program, which supports 60 militarily useful commercial vessels and their crews, along with a global network of intermodal facilities, provides funding to help offset the

higher costs operating under the U.S. flag.

Continuing, strengthening, and adding to these three pillars, the Jones Act, cargo preference, and the MSP, is essential for maintaining the economic competitiveness, safety, and productivity of the U.S. maritime transportation system. They bolster the U.S.-flag fleet's ability to support the national and economic security needs of the Nation.

MARAD provides funding support for mariner training programs at our Nation's flagship maritime training facility, and my proud alma mater, Kings Point, as well as the six State maritime academies across the Nation. Virtually all entry-level officers with unlimited U.S. Coast Guard licenses graduate from these schools. These merchant mariners support the peacetime U.S. maritime transportation infrastructure and serve our Nation during military operations worldwide, in national emergencies, and humanitarian crises.

Part of our assistance to the six State maritime academies comes in the form of training ships, two of which are more than 50 years old. MARAD also manages and maintains the bulk of our Nation's surge sealift capacity found in the Ready Reserve Fleet. These 46 ships with an average age of 43 years are well past their design service life. MARAD is working with the U.S. Transportation Command and the U.S. Navy to determine how to best recapitalize the RRF to ensure the continued readiness of these vessels.

That is a brief overview of the priority action items that I am involved in at MARAD. I appreciate the subcommittee's continuing support for maritime programs, and will be happy to respond to any questions you and the members of the subcommittee may have

this morning.

I ask that my written testimony be entered into the record. Thank you, sir.

Mr. HUNTER. Without objection.

Thank you, Admiral.

And Admiral, I will start by recognizing myself. Let's play this out and set the scenario. So let's say that country X goes off, and it is a real war, not counterinsurgency, or counterterrorism. And you got to bring a bunch of stuff really fast. Lay it out for us right now. What would move and what wouldn't move? What is your guess on how many ships out of the RRF we can actually get up and going. How would that look? Right now.

Admiral Buzby. As we speak, as of this morning, the Ready Reserve Force readiness was at 98 percent, which means that our metrics that we use to measure how ready those ships are to-

Mr. HUNTER. So let's break it down into a real scenario. You told me you are doing a test right now.

Admiral Buzby. Correct.

Mr. HUNTER. You are doing a callup on one of the biggest Ready Reserve ships that you have, they have 5 days

Admiral Buzby. Four of them, actually.

Mr. Hunter. Four of them.

Admiral Buzby. Right.

Mr. HUNTER. And they have 5 days to prep.

Admiral Buzby. Correct.

Mr. HUNTER. Your 98 percent is not coming from that. So if you were to just guess and say in your mind, how many of your ships could you get underway, loaded to the brim with ammo, food, supplies, and everything that you would need? You could get 98 percent of the Ready Reserve Fleet right now moving?

Admiral BUZBY. Within the 5-day period, yes, sir. I have good confidence that, as I said, 98 percent of those—we would be able,

within the 5-day period, to light off, crew up, and-

Mr. HUNTER. When does that fall off and we start losing that capacity? I mean if we don't do anything, you have got steam engine Ready Reserve ships.

Admiral Buzby. Right.

Mr. Hunter. You have mariners that don't know how to work steam engines any more, or parts. So you are at 98 percent, which is awesome. But at some point I am guessing it goes to 95, 98, 85.

Admiral Buzby. Sure. Mr. Hunter. Right? Admiral Buzby. Yes. sir.

Mr. HUNTER. When does that drop-off happen?

Admiral Buzby. Without funding commensurate with the age of those ships as they become more difficult to maintain, I would say we could start seeing that happen at any time, going forward. You know, as I said, these ships are 43 years old; 24 of them will be 50 years old here by 2020. And each year that an old ship gets older, it becomes more challenging to maintain, and we won't be able to guarantee that readiness.

Mr. HUNTER. How long does it take to figure out whether a ship can be fixed up, or whether you just have to build a new one and

Admiral Buzby. We----

Mr. Hunter. That analysis.

Admiral Buzby. Actually going on board and doing the site surveys and kicking the steel and that sort of thing, you know, to do an entire survey of the fleet? We are constantly doing that. But I would say to do a real focus survey, probably several months to really get through-

Mr. HUNTER. And you are going to be doing that? Admiral BUZBY. We are doing it constantly, because that is part of our recapitalization effort, is to look and see what ships potentially have-

Mr. Hunter. You will be able to come back to us in 6 months or 4 months and say these are how many ships we need to build, these are how many ships we can fix up?

Admiral Buzby. Conceivably, we could. Yes, sir.

Mr. Hunter. OK.

Admiral Buzby. Yes, sir.

Mr. Hunter. Well, let me switch really quick. I got 2 minutes. Let's talk people. Let's talk first, Admiral Nadeau, it was Navy in the beginning that had the big issue from transferring a mariner's occupational specialty and certifications over to the civilian world, right? The Navy had a lot of issues with that. The Army was actually pretty good at it. How is it going with the Coast Guard?

Admiral NADEAU. Sir, we have made a lot of progress, as well.

The Coast Guard has-

Mr. HUNTER. Do you mind pulling the microphone closer to you? I have got artillery ears.

Admiral Nadeau. Is that better?

The Coast Guard has two pieces to this. One is providing experienced military members that can apply their skill sets and the training to merchant credentials. We also have, of course, the credentialing program. We are the ones that issue those creden-

Working with MERPAC and others and our partners in DoD and in DOT, we have come up with about 88-some-odd recommendations that we have been working to implement. And we have made

significant progress.

Around this time we have approved about 200 different courses from different services. About 60-some-odd of those are Coast Guard courses that allow the members to take again their direct training they have had while in uniform and apply that to obtaining a merchant mariner credential.

Mr. HUNTER. So you are helping the Navy walk through this,

too?

Admiral NADEAU. Yes, sir. We have developed a crosswalk that allows members to look again at their training and their qualifications in the Service, and how they can apply that directly to merchant mariner credentials.

Mr. HUNTER. What is MARAD doing on the same line?

Admiral Buzby. Mr. Chairman, I cochair a subcommittee of the Committee on the Marine Transportation System, along with Commander of Military Sealift Command, which has members of all of the sea services—NOAA, Army Corps of Engineers, anybody that has mariners. Government mariners—to identify what are the impediments, what are the roadblocks to keeping those folks from

transitioning cleanly using the Coast Guard certified courses into the commercial maritime.

We have identified a lot of roadblocks and are—that is actually a fairly active committee that we are—that is producing some good

Mr. Hunter. Good. I look forward to hearing about it. I have got one last question, if the Members will indulge me.

You have about 40,000 ships that are doing not coastwise trade, but inland waterways trade, mostly.

Admiral Buzby. Jones Act trade, yes, sir.

Mr. HUNTER. Admiral Nadeau, you are the head of prevention policy, right?

Admiral NADEAU. Correct.

Mr. Hunter. So I would guess that means preventing bad guys from doing bad things too on the waters. All 40,000 of those ships have been approved by the U.S. Coast Guard, right? I mean they have passed their certifications, they are crewed by Americans, and they are American-made ships. You got American-crewed, Coast Guard-approved crews and ships operating on the rivers throughout all the ports in the entire country.

In your professional opinion as a military man, both of you, would you like to see foreign ships in the inland waterways? Chi-

nese, Pakistani, name it.

Admiral Nadeau. Sir, I would say that you are absolutely right. Right now, in the current laws and regulations, all of those ships

are U.S.-built, operated by U.S.-licensed, U.S.

Mr. HUNTER. From a homeland security point of view, how important is it to you that you have U.S.-crewed, Coast Guard-certified ships and crews operating where there is no oversight, where you are going into middle America with thousands of ships every day carrying chemicals, all kinds of cargo? How important is it to you and homeland security?

Admiral NADEAU. Security is very important, sir. And you are right, that would be a different paradigm, should that not all be

U.S. mariners, U.S. citizens on board those ships.

Admiral Buzby. Sir, you hit the nail on the head. Those mariners are a de facto layer of our national security. If they see something, they will say something. They know what is normal on the waterways.

Mr. Hunter. And the Jones Act makes that possible, period.

Admiral Nadeau. Yes, sir.

Mr. HUNTER. Thank you very much. I yield to the ranking member, Mr. Garamendi.

Mr. GARAMENDI. Thank you, Mr. Chairman.

Well, let's start with Russia. There is legislation passed by the Russian Parliament that requires that all ships transiting the Northern Sea Route—that is, along the 4,000 miles of the Russian Territory—be Russian flagged, with a small exception. Is that a Russian Jones Act? Either of the two of you would like to respond?

And, if so, does this also indicate that our own Northern Sea

Route should have a similar program?

Admiral Buzby. I will take a crack at that first. Like about 44 other countries around the world that have cabotage-type laws, from at least my knowledge of what the Russian proposal is, it sounds like a cabotage-type law, which, for all the various same reasons why we want to have a Jones Act and think a Jones Act

is important——

Mr. GARAMENDI. Now, the United States is now an exporter of LNG and oil. Would it be in the American interest in creating cargo to have some percentage of that export of LNG and oil be on American-flagged and American-built ships? Would that create a cargo opportunity for the American maritime industry?

Admiral BUZBY. Yes, sir. I think it would. You know, cargo is king, as we have said, and as you all have pointed out. What generates cargo generates ships and, therefore, generates jobs. So, you know, where we can generate cargo in international trade, that

would be ultimately likely to the benefit of our industry.

Mr. GARAMENDI. That now brings me to the issue of cargo preference enforcement, which is a MARAD program—to some extent also the Coast Guard.

The 2008 NDAA [National Defense Authorization Act] directed MARAD to promulgate regulations to strengthen its enforcement of cargo preference requirements. Since then, MARAD has been unable to clear a proposal through the OMB office.

Admiral Buzby? Admiral Buzby. Sir?

Mr. GARAMENDI. You are new at this. Are you going to give it another shot? And are you capable of overcoming OMB, with our help?

Admiral BUZBY. That is a good question, sir, which we will have to kind of see how that plays out.

Mr. GARAMENDI. Let the last question go. But the first question,

are you ready to proceed?

Admiral Buzby. Sure. The first part, sir, our cargo preference office actually is very heavily engaged on both sides, both with shippers and with the Government agencies that ship cargo preference cargo. And we are working with them actually pretty well to ensure that currently the 50-percent cargo preference requirement is being met.

And where it is not specifically being met for a particular cargo, we are doing what I would call a catchup procedure, where if it is through the nonavailability of a U.S.-flag ship to carry a particular cargo, we can make an exception to allow that cargo to go on a foreign-flagged ship. However, another cargo that is being shipped by an agency that may not be required to be cargo preferenced, that gets made to be cargo preference, so it catches up and fulfills the requirement.

Mr. GARAMENDI. Well, the cargo preference laws are more than just food aid. They are also material goods that have been financed by the Federal Government. So it is a very broad array of things.

Admiral Buzby. Yes, sir.

Mr. Garamendi. The more active and the more aggressive you are in investigating, quantifying, and reporting on these cargo opportunities and missed opportunities, the more likely it is that we will develop the cargo. If you are not willing to do that, and if you are not active—and I hope you would be very, very aggressive at this—it will move us towards more cargo, rather than less.

So, we will, I hope—and certainly I think the chairman would agree with this—we will hold you accountable for your efforts and for your activity and investigating, quantifying, and fully developing the information about all cargo that is impelled on American ships.

Admiral Buzby. Yes, sir.

Mr. Garamendi. You ready for that?

Admiral Buzby. Absolutely, sir.

Mr. GARAMENDI. Good. I want to go to the issue of the Outer Continental Shelf.

Admiral Nadeau, I want to talk to you about your B-1 visas. Now, this is going to be a subject from the second panel, but since you won't be around after the second panel, or for it, let's get into it.

The Coast Guard issues B-1 visas for foreign mariners to operate on either American or foreign ships, providing services in the Outer

Continental Shelf. How many visas have you issued?

Admiral Nadeau. Sir, I think that the Coast Guard issues a letter of nonavailability to the vessels. We don't actually issue the visas. So we do issue letters of nonavailability to foreign-flagged vessels that are majority foreign-owned. Under the Outer Continental Shelf Lands Act, OCSLA, there are provisions in there—

Mr. GARAMENDI. The visas start with your letter, don't they?

Admiral NADEAU. Yes, sir. That is correct.

Mr. GARAMENDI. OK. Then how many letters?

Admiral Nadeau. I would have to take that back and get you exact numbers. I wouldn't want to make an estimate here. We deal with those routinely. They come in, they are evaluated, we issue them. And then, if there is a change in ownership or change in operations, those operators are supposed to come back to us to have them reevaluate it. But I can—

Mr. GARAMENDI. When can you get the information for me?

Admiral NADEAU. I would hope that we have good records, sir, but it would be as soon as possible.

Mr. GARAMENDI. This afternoon? Admiral NADEAU. I will do my best.

Mr. GARAMENDI. Good. You are aware that about half the vessels that provide services to the Outer Continental Shelf, or the—and inner shelf—are laid up?

Admiral Nadeau. Yes, sir. That is correct. We met with OMSA

last week, and they provided us an update.

Mr. GARAMENDI. And do you have information on the number of ships that have foreign mariners, rather than American mariners, of those?

So if half of the fleet is laid up, why? Is it foreign competition? Admiral Nadeau. At this time, sir, my understanding is it is more because there is not as much activity in the Gulf of Mexico.

Mr. Garamendi. OK.

Admiral Nadeau. So if we are talking strictly Gulf of Mexico, my understanding is that the U.S. Fleet, a lot of those vessels are tied up. I wouldn't have any statistics for the global fleet.

Mr. GARAMENDI. I notice my colleague down the dais here wants to jump in on this. So I guess you are going to be next. And I would appreciate you jumping in and carrying on this discussion. It is a big issue, because it not only affects the mariners, but it affects the entire workforce and the ships. And I think part of the problem is created by the Coast Guard, with your letters. We want to get into this in detail.

When you issue a letter, do you also investigate whether the individual that is working on these ships is qualified?

Admiral NADEAU. Sir, again, we issue a letter to the vessel, and then that allows them to go out and find qualified people that meet whatever standards you are trying to fulfill. So there is—

Mr. GARAMENDI. You then investigate whether the jobs that are being made available are filled by qualified foreign nationals?

Admiral Nadeau. Foreign-flagged vessels are subject to the manning as specified by the flag that they fly. Just like U.S. vessels, we determine the manning to the state—we have to make sure they meet SCCW, but for a lot of jobs in question, they are back deck, where they have specialized skill sets.

Mr. GARAMENDI. So we may have foreign mariners operating in the Outer Continental Shelf and the inner that may or may not be

qualified under U.S. law. Is that the case?

Admiral Nadeau. Sir, I would say U.S. law provides us to issue those exemptions, which we issue to the vessel. Then it is Department of State that issues the visa to the actual crewmember. And then CBP [U.S. Customs and Border Protection] handles the entry process as they come into the States.

Mr. GARAMENDI. But my question goes to the qualifications of the mariner. Now, if they are American ships and American mariners,

they have to meet a certain qualification, correct?

Admiral NADEAU. That is correct, sir.

Mr. GARAMENDI. Do these foreign nationals providing these services, do they meet the same qualifications?

Admiral Nadeau. Probably SCCW, the international convention. Mr. Garamendi. They do?

Admiral NADEAU. Yes, sir. For a foreign ship-

Mr. GARAMENDI. Who is responsible for checking whether they do or do not?

Admiral Nadeau. The foreign flag? If they are a foreign-flagged ship, that nation sets the manning and handles the licensing for—

Mr. GARAMENDI. So you don't know whether they are qualified or not.

Admiral Nadeau. As part of our routine port state control boardings, we do go on board and we check the licensing certificates and documentation of all members on board—

Mr. GARAMENDI. We will go into this in more detail. Unfortunately, you will not be here after we hear from other witnesses.

I vield back.

Mr. Hunter. I thank the gentleman. Mr. Graves is recognized. Mr. Graves of Louisiana. Thank you, Admirals. I appreciate you being here today. And I want to start on the line of Mr. Garamendi's line of questioning, which I think is excellent.

Admiral Nadeau, do you know how many countries you have issued letters to under the waiver program, under the B-1?

Admiral Nadeau. So I think—we issue them to the vessel.

Mr. Graves of Louisiana. Right. I am sorry, yes, the flag of those nations.

Admiral NADEAU. Off the top of my head I do not, sir. We will

have to try and get—

Mr. GRAVES OF LOUISIANA. Do you know if there are any vessels that are flagged from nations that would be considered perhaps unfriendly to the United States that are operating in the OCS?

Admiral NADEAU. Unfriendly? Like North Korea or Venezuela?

Mr. Graves of Louisiana. Take your pick.

Admiral Nadeau. I really doubt that, but I can provide those numbers for you, or do my best to get those answers.

Mr. GRAVES OF LOUISIANA. If we had a submarine, a Russian sub sitting off the coast, a few miles off our coast, would that concern you?

Admiral Nadeau. Absolutely.

Mr. Graves of Louisiana. Do you think it is possible that some of these vessels perhaps are out there doing intelligence-collecting and other things under the auspices of operating in our OCS?

Admiral Nadeau. I guess it is possible.

[The U.S. Coast Guard has submitted the following in response to the preceding line of questioning from Congressman John Garamendi and Congressman Garret Graves. Congressman Garamendi asked how many Letters of Non-Applicability the U.S. Coast Guard has issued:]

The Coast Guard issues Letters of Non-Applicability (LOAs) to foreign owned or controlled foreign-flagged vessels that wish to operate on the Outer Continental Shelf. An LOA is evidence of a vessel's compliance with OCSLA and it authorizes the foreign-flagged vessel to engage in OCS activity (i.e., those activities pursuant to OCSLA). The Coast Guard has issued 459 LOAs since 2006. Of those 459, only 373 remain valid.

[Congressman Garret Graves asked if the U.S. Coast Guard knows if there are any vessels flagged under the flag of nations considered unfriendly to the United States operating, based on a LOA on the U.S. Outer Continental Shelf (OCS):]

The Coast Guard has not issued an LOA for any Venezuelan registered vessel or chartered Venezuelan vessel, nor has the Coast Guard issued an LOA for a North Korean registered vessel or chartered North Korean vessel.

Mr. Graves of Louisiana. It is possible. Yes, Admiral, just this week I had a meeting with a number of constituents. In fact, probably over 100 of them, expressing concern over the H–2B visa program, a program whereby, if you are unable to get domestic workforce, you can bring in foreign workforce to address surge capacity in different industries. It has to be a temporary basis, you have to demonstrate there is not American workforce available.

In this case, it is clear—and I want to follow the question that Mr. Garamendi asked—it is clear that there is additional work in the OCS that American-crewed, American-built, American-flagged ships could be doing. Otherwise, the foreign vessels wouldn't be there, of course.

So there are numerous vessels tied up at Port Fourchon and a number of other ports along the gulf coast that could be doing this work. So I want to be very clear that there is a strong sensitivity on our part, and I think I speak for many members of this committee, that the perhaps lackadaisical enforcement by our Federal Government—and I know there are other agencies involved—is having an impact on American workforce, on American investment,

and, most importantly, just on the families, on families right here in the United States.

I think that every person I know in south Louisiana knows someone or has personally been impacted or laid off or lost their jobs in these industries. And so, to watch these foreign vessels come in

is especially concerning.

Admiral, the CBP has admitted a lack of enforcement in the OCS, has admitted violations and lack of enforcement. What is the Coast Guard's position there? I mean do you think that it is appropriate to have some of these foreign vessels operating just miles off our coast, when we have domestic vessels that are capable of doing this same work in compliance with the law?

Admiral Nadeau. Sir, we try to apply the laws and regulations as they are given to us, and try to establish a level playing field. There is tension between the citizenship and under OCSLA and with the U.S. flag and trying to provide a competitive fleet. We are in discussions about this with OMSA, we had a discussion about it last week. We look forward to working with industry to try and resolve some of that.

We know we have an extremely capable U.S. Fleet. Over the past few years there are some amazing vessels that have been built down in the Gulf of Mexico that can do amazing things. We are committed to work with industry, with Congress, to try to find out how we can best employ those vessels to serve the Nation.

Mr. Graves of Louisiana. Well, I want to urge you to do so with some urgency. As you know better than I, this isn't just about employment and economy. This has national security implications, when this snowballs, as you well know. And I think it is important that we do keep this on the front burner.

Changing gears, Admiral Buzby, were you consulted whenever the administration proposed to waive the Jones Act for some of the hurricane response activities?

Admiral Buzby. No, sir.

Mr. GRAVES OF LOUISIANA. You were not. Now, that is not required under the law, as I recall, but I think it—

Admiral Buzby. Not under the 501(a) statute, which was used to grant those waivers. There were some other waivers that were discussed earlier in support of Hurricane Harvey that went through the 501(b) process that MARAD was consulted in. Our role in that process is to provide CBP with a list of U.S.-flag vessels that could be available to meet the needs with the waivers being requested for—

Mr. Graves of Louisiana. As I recall, there were one or two vessels perhaps that took advantage of those waivers. And when I went down to Puerto Rico with Chairman Shuster, Ranking Member DeFazio, and others, it was clear to me after seeing it myself, after talking to folks, that the real challenge was the internal infrastructure, perhaps the distribution system within Puerto Rico that was significantly damaged, rather than actually getting the cargo there. In fact, the ports were clogged with cargo. Is that a fair assessment?

Admiral Buzby. That is my understanding of the situation, yes, sir. From talking with all of the Jones Act shippers—and I talked

with all of them-they could not push any more cargo into the

ports. They literally could not get it outside the gates.

Mr. Graves of Louisiana. So strong concern that we waived a law. And again, I think it was a solution searching for a problem. And I think that in many hearings that we had in this committee and roundtables we had in this committee, that that issue has come up.

And certainly I understand that there are a lot of considerations at play when something like that happens. I certainly would request that you weigh in and share your expertise in this area in the event that something like this happens in the future. We are going to continue to be working to perhaps legislate a little bit better approach, perhaps, to disasters in the future.

Last question. Admiral Nadeau, if you go back and you look at the FRC, the OPC, and other programs that you are running, that the Coast Guard is running right now, did you have just one ship-

yard that bid for some of these boats?

Admiral NADEAU. I am not on the acquisition profession, but no, I believe there were multiple yards that competed for that work.

Mr. Graves of Louisiana. And I understand that it is not your program, specifically, but certainly I think these are things that most folks—and certainly I think you would have some awareness of. The yards that are building some of these boats, do these yards only do Government work?

Admiral NADEAU. The shipyards we are currently using? No, sir.

They also do private commercial work.

Mr. Graves of Louisiana. Do you appreciate the role that the Jones Act plays in terms of ensuring we have an industrial base here to ensure that we can build these vessels, that we can build the latest technology, that we can build the safest, most modern vessels available for our Coasties, that relationship between the Jones Act—for example, if you are a pilot and we said, "Hey, we need you to come fly a plane once every 10 years," my guess is you are going to say, "Well, you know what? I really need to have some type of gap training" apply in this case. Does that make sense?

Admiral Nadeau. Absolutely. We do rely on the same yards that

use commercial work. We benefit from that tremendously.

Mr. Graves of Louisiana. Great, thank you.

Mr. Chairman, I apologize for going over. I yield back.

Mr. Hunter. I thank the gentleman. Mr. Larsen is recognized.

Mr. LARSEN. Thank you, Mr. Chairman.

Admiral Buzby, I just have a couple questions. They are both for you.

Admiral Buzby. Sir.

Mr. Larsen. So the President and the administration has ran on and announced, and rumors are flying as we sit here today that a \$1 trillion infrastructure package will find its way up here to the Hill, at least principles for a package. And part of infrastructure ought to be supporting the U.S. maritime industry.

So my question is for you and if MARAD itself has been consulted on part of that conversation within the administration on what parts of the infrastructure package would best serve mari-

time. And, if so, what parts?

Admiral BUZBY. Thank you, sir. The answer to your question, the short answer, is yes, we have been involved within the Secretary of Transportation's office. We have been working very closely with her staff, who have obviously, then, inputted into the national strategy. We have made a very strong point that our ports are our

gateways to our economy.

I mean virtually everything in our economy flows through our ports. Our key gateway ports and then all of our smaller feeder ports really is where the majority of this Nation's commerce gets done. And the importance of those ports and the connections from those ports, via highway, via rail, via adjacent airports, and via the waterways that we spoke of earlier, using Jones Act vessels to move that cargo intercoastal throughout our country are all very, very vital and need further investment if we want to keep pace with the—our growth to keep the flow moving.

Mr. LARSEN. So perhaps you can't share with us, but are there specific elements that you at MARAD brought to that discussion?

Admiral BUZBY. We thought that the maritime highway initiatives was very important. That is, in our opinion, kind of an underutilized mode of transport in our country that could significantly impact the highway congestion by removing a lot of containers that are moved around this country off of there where it makes sense to, where it economically makes sense.

And we have several operating marine highways in this country right now that are doing just that. It cuts down on pollution. Instead of having a whole lot of diesel engines moving things, you have one diesel engine moving cargo around. So we think there is

great benefit there.

Mr. Larsen. All right. Let me ask about one particular program. It has been around since 2008 or so, the Small Shipyard Grant Program. Do you anticipate this year that you will be tendering grant applications for small shipyard grants? And do you know yet how

much MARAD will have to allocate for that?

Admiral Buzby. I haven't seen any of the final numbers. I expect that the program will continue to exist and be utilized. It is a very popular program. We get roughly about 10 times the amount of requests for grants, and they are typically small amounts of money, but they have big impact across the maritime industry, typically in the maintenance and repair area that are very critical to maintaining the Coast Guard's vessels, the Ready Reserve Force vessels, Military Sealift Command vessels. We all benefit from investments in these small—

Mr. Larsen. I am glad to hear that. In its early life, once it got started, it did have some struggles staying alive. But members of this committee have been very strong advocates of the program, of the Small Shipyard Grant Program. So I was glad to see the allocation last year, and hope to see continued support from this administration for that.

Thank you, I yield back.

Mr. HUNTER. I thank the gentleman. Mr. Weber is recognized.

Mr. Weber. Thank you. That was a great exchange between Congressman Garamendi about the B-1 visas. And so, Admiral Nadeau, my question is—and you may not know the specifics—but have there been instances where sailors, foreigners on those ves-

sels-I know you said you issue certificates to the vessel, but are there any reported incidences where we have discovered sailors that were not qualified?

Admiral NADEAU. Not to my knowledge on the OCS, no.

Mr. Weber. OK, fair enough. So I think one of the comments that was made earlier is about the Jones Act and vessels up in the waterways from the chairman, which I am all about, being sure that we keep the Jones Act in place and be sure that we protect the integrity of our country. Have there been any incidents, Admiral-still with you-where there has been discovered on the interior waterways—I mean I don't have what happened, so I am just asking you—foreign-flagged vessels or sailors that were not quali-

Admiral Nadeau. Again, not to my knowledge. Those vessels and there are thousands of them—are manned, crewed by U.S. citizens. They are credentialed by the Coast Guard.

Mr. Weber. How many thousands would you estimate?

Admiral Nadeau. In the heartland, it is hard to estimate. I can tell you, sir, that we are embarking right now on implementing subchapter M, which includes about 5,500 different vessels. Then you got to add other vessels. Not just towboats, but there are many other types of vessels, from pasture ferries—but it has got to be more than 5,000, probably closer to 7,000.

Mr. Weber. What is your biggest challenge around the country? Is it the deep water ports of the West? Is it the Gulf of Mexico?

Where would you say most of your agency's time is spent?

Admiral Nadeau. Well, distributed across the United States and I think that workload is-again, we see it-was a lot of activity in the gulf coast. Some of that has shifted. Certainly throughout the heartland, throughout the Marine Transportation System, the 25,000 miles of rivers and those 360 ports, it is distributed across the country, sir. So it is hard to say there is one particular area that is more important than another. We have people—

Mr. Weber. Well, no. I didn't say "important." I said "activity."

I chose my words carefully.

Admiral Nadeau. Yes, sir. I would hesitate to say. It depends on the activity, because we are doing many different functions and missions. Whether that is vessel inspection, whether that is, again, the licensing and manning functions, the investigations piece of this, the port security piece, there is a lot of different activity, sir, by the Coast Guard across the entire Nation.

Mr. Weber. Is there a particular product, whether it is container or bulk, or whether it is tank vessels, is there a particular product

that presents the most problem to you all?

Admiral NADEAU. I wouldn't say there is one that presents a problem. We established a regulatory regime to address the challenges, and we have a risk-based, performance-based regime in place to help make sure that we monitor and address whatever challenges those might be.

Mr. Weber. Going to the gulf coast, Hurricane Harvey, whichyou guys did a fabulous job, by the way, the first three coastal counties of Texas, starting at Louisiana, that other foreign country, and Jefferson County, Galveston County, and the southern half of Brazoria County. Were you all well prepared for Hurricane Harvey

and that kind of response, or is there something we could have done better?

Admiral Nadeau. Sir, again, a little bit outside my wheelhouse, but through talking with my peers, I mean, we are always looking to improve. I thank you for the compliments to our fabulous crew we had down there, I am very proud of them. But we always look to improve, so we will be going through an after-action process to make sure that we can improve.

Mr. Weber. Fair enough. Yes, I appreciate that.

Admiral Buzby, I am going to jump over to you now, and some of the other questions.

You weren't consulted by the administration over the waiver of the Jones Act you said.

Admiral Bužby. It is not required that MARAD be. No, sir.

Mr. Weber. Well, I get that. But we would have appreciated that, right?

Is there a way or method or mechanism or a—I don't know what you want to call it—an avenue where, in the future, going forward, maybe you could establish that and say, hey, look, you know, guys, going forward we would appreciate if maybe you might want to check with us. Have you thought about an avenue for that?

Admiral BUZBY. Well, short of changing the statute, there would be no legal precedent for that.

Mr. WEBER. I get that.

Admiral BUZBY. However, certainly there is, you know, informal liaison that can go on. And we had heard that some of that was occurring.

Mr. WEBER. You didn't hear it through Twitter, did you?

Admiral Buzby. No, sir. Mr. Weber. I am just asking.

Admiral BUZBY. I don't tweet.

Mr. Weber. OK. Smart man. All right. Getting—what—and Admiral, I will stay with you for just a minute—what is—your opinion, what is the greatest hindrance that we currently faced to keeping the Jones Act in place and making sure that it does well for our country? What is the greatest hindrance?

Admiral Buzby. I think it is probably a misunderstanding by many of exactly the role, the critical role, that the Jones Act plays. A lot of people, I think, focus on strictly an economic view of the impact of the Jones Act, and fail to recognize the significance to national security.

Mr. Weber. Well, I would submit that if we don't have a good economy then our national security is going to lag behind.

Admiral Buzby. Right, but by economy, you know, it is—I mean the costs—

Mr. Weber. Sure.

Admiral Buzby [continuing]. Associated with the Jones Act that people allege that adds to the cost of——

Mr. Weber. Let me jump over—I am a little bit out of time—to you, Admiral. What is the greatest asset that we have that is helping us with the Jones Act? What is the best thing in place? I am going to do the opposite of what I asked him, what is the greatest hindrance. Now to you, what is the greatest thing we have making sure that we preserve the Jones Act?

Admiral NADEAU. That is a tough one, sir. Again, the Jones Act has been in place for nearly 100 years. And we see many benefits and many impacts. Should one look to perhaps unwind some of that, we have to be mindful second- and third-order effects.

But we see tremendous benefits to the Jones Act, in terms of safety and equality, the mariners, our industrial base, and we

would just offer that-

Mr. Weber. I am going to come back full circle, and that is why I was questioning earlier about have we caught any sailors that weren't qualified on foreign-flagged vessels, because that would serve as a basis for us to say, look, we want to keep the Jones Act in place and make sure that we have got American vessels, make sure that we are doing our job. It is helping our economy and it is helping our national security. So maybe it is education, you guys helping educate?

Admiral Nadeau. Yes, sir. Coming back to your question about mariners, I was answering directly for the Gulf of Mexico. But we do, as part of our port state control boardings, we go on foreign vessels, we do assess the competency of the foreign crewmembers, and we do on occasion find that they are not meeting the international

standards.

Mr. Weber. So what happens with that vessel that you have issued a certificate or a letter to when they have someone on board that doesn't qualify?

Admiral Nadeau. We intervene on the International Convention and ensure that appropriate steps are taken to correct the deficiencies, whatever they might be.

Mr. Weber. Does that vessel lose its ability to come back into

our area? Admiral Nadeau. They must take corrective action to bring it to the proper level of safety before they are allowed to operate.

Mr. WEBER. And who follows up on that? Admiral NADEAU. The Coast Guard.

Mr. Weber. OK. Thank you, Mr. Chairman. I yield back.

Mr. Hunter. I thank the gentleman. Great, great questions. I think that is it for this panel. No further questions.

Mr. Garamendi is recognized. Mr. Garamendi. Thank you, Mr. Chairman. I appreciate the op-

portunity for an additional question.

We went round and round on this issue of foreign vessels operating in the Outer Continental Shelf. It seems to me that the Outer Continental Shelf Lands Act is very, very clear that it is a Jones Act region. Is there any doubt about that?

Admiral Nadeau. We have many foreign vessels with foreign mariners that are permitted to work on the Outer Continental

Shelf, sir.

Mr. Garamendi. So there is doubt as to whether or not the Outer

Continental Shelf is subject to the Jones Act?

Admiral Nadeau. It is subject to the Jones Act if it is moving cargo that is subject to Jones Act. But a vessel that is just working out on the Outer Continental Shelf that is not transferring cargo can go out and work on the shelf.

Mr. GARAMENDI. And we are going to go into this a little more in the second panel, I am sure. But I want to just ask the question about the letter of nonavailability. That is issued by the Coast Guard?

Admiral Nadeau. Yes, sir.

Mr. GARAMENDI. Is there a timeframe in which that letter of nonavailability is applicable, or is it just available and then goes on for an unlimited period of time?

Admiral Nadeau. Unless the circumstances change, it is issued to the vessel based on the ownership of the vessel and the flag of the vessel. If those conditions don't change, the letter remains in effect.

Mr. GARAMENDI. OK. So you issue a letter of nonavailability, authorizing a foreign-flagged vessel to operate on the Outer Continental Shelf, correct?

Admiral NADEAU. Yes, sir. It allows them to use foreign—

Mr. Garamendi. OK.

Admiral Nadeau [continuing]. Foreign workers.

Mr. GARAMENDI. And now we have a situation where some 50 percent of the American vessels that would provide services in the Outer Continental Shelf are laid up. Is there a nonavailability today?

Admiral Nadeau. Is your question are there vessels that are ap-

plying for letters of nonavailability today?

Mr. GARAMENDI. Wouldn't it be appropriate that, since half of the American vessels are laid up, that there is no question of availability, and therefore the letters of nonavailability should termi-

Admiral NADEAU. Sir, we are applying OCSLA and the domestic law and statutes as they are presented to us, trying to enhance a level and fair playing field. But there are some tensions between, again, the citizenship, and trying to make sure we recognize that in OCSLA, and then trying to keep our fleet competitive. There is some tension there.

Mr. Garamendi. OK.

Admiral NADEAU. I would be happy to come back and get a more detailed brief for you, though, sir.

Mr. GARAMENDI. I would appreciate that. Thank you.

Admiral NADEAU. Thank you.

Mr. HUNTER. Just closing here, I think you heard from quite a few Members. We have seen the crew lists of some of these ships, where you have Moldovans, Chechens, Kazakhs, you got all kinds of people on these ships, and you don't know who they are.

You don't know who they are, which means the Department of Homeland Security doesn't know who they are, which means U.S. Government and the American people don't know who they are, either. They could be great guys, they could be bad guys. You don't know, because you issue that letter to the ship and say, you got to comply now. And if they are a bad actor, they are not going to comply, but they don't have to worry about it because you don't check

And if you have Americans able to do it right now, and you are having Moldovans and Kazakhs and Chechens out there, you don't know who is out there on a Norwegian ship. You got a Norwegian captain, a Norwegian first mate or whatever chief, then you could have whoever. And we would like to know who is manning those ships and, at the same time, we are curious as to why you are allowing them at all, when you have U.S. ships able to do it.

So at least make it more stringent on them so you have to say, hey, you have got a terrorist on your ship that is maybe bad, all right?

So with that, there are no more questions. Rear Admirals, thank you very much for your time and your expertise and for being with us today. And with that, we are going to move on to the second panel. I appreciate it.

[Pause.]

Mr. Hunter. All right, panel two. OK. We are now going to hear from Mr. Matt Woodruff, chairman of the board of directors, American Maritime Partnership; Mr. Eric Ebeling, president and chief executive officer of American Roll-On Roll-Off Carrier Group on behalf of USA Maritime; Mr. Aaron Smith, president and chief executive officer, Offshore Marine Service Association; Mr. Matthew Paxton, president, Shipbuilders Council of America; and Mr. Bill Van Loo, secretary treasurer for the Marine Engineers' Beneficial Association and on behalf of American Maritime Officers; Masters, Mates and Pilots; and the Seafarers International Union.

Great to see you all here. Thank you for being here.

And Mr. Woodruff, you are now recognized to give your statement.

Mr. WEBER. Turn on your mic. Mr. WOODRUFF. Absolutely, sorry.

TESTIMONY OF MATT WOODRUFF, CHAIRMAN, AMERICAN MARITIME PARTNERSHIP; ERIC P. EBELING, PRESIDENT AND CHIEF EXECUTIVE OFFICER, AMERICAN ROLL-ON ROLL-OFF CARRIER GROUP, ON BEHALF OF USA MARITIME; AARON C. SMITH, PRESIDENT AND CHIEF EXECUTIVE OFFICER, OFFSHORE MARINE SERVICE ASSOCIATION; MATTHEW PAXTON, PRESIDENT, SHIPBUILDERS COUNCIL OF AMERICA; AND BILL VAN LOO, SECRETARY TREASURER, MARINE ENGINEERS' BENEFICIAL ASSOCIATION, ON BEHALF OF AMERICAN MARITIME OFFICERS; MASTERS, MATES AND PILOTS; AND THE SEAFARERS INTERNATIONAL UNION

Mr. WOOdruff. The American Maritime Partnership is the largest maritime trade association in America, representing vessel owners and operators, shipbuilders and repair yards, dredging and marine construction contractors, trade associations, pro-defense groups, and more.

And I would say that, on balance, the state of our industry is good. There are bright spots, yet there are also very significant causes for concern.

There has been a massive recapitalization in our industry of late. And in some segments, that process is ongoing. Billions have been invested. We have new tank, container, offshore service vessels, dredges, towboats and tugboats built at shipyards all around America, sailing all around America.

Our business tends to run in cycles, and many segments of the domestic industry have been in a down cycle for some time. So as I talk about the positive aspects of our industry, we shouldn't forget that, for many of our companies right now, even entire segments of our industry, they are having a really hard time right

Despite our challenges, our industry continues to serve its customers well with vessels that are purpose-built for the needs of our

The foundation of everything we do is the Jones Act. It exists to protect America by enhancing our economic, national, and homeland security. America needs the benefits provided by the Jones Act as much today as it ever has. Our industry needs certainty, as we invest in long-life assets. And we know we will never get that certainty from the marketplace. But we need regulatory certainty from our Government. We need the Jones Act to remain the settled law of the land.

Hurricanes were a big issue for us in the past year, and our people rose to the challenge. They implemented their hurricane plans. they rode out the storms with remarkably little damage. And when the rains stopped falling and the wind stopped blowing, they got back to doing what they do best: moving cargo for America, dredging channels impacted by the storm, serving the offshore oil and gas industry.

In many cases, the people of our industry put aside the damage to their own homes because they knew that the cargo they carried

represented a lifeline to the affected communities.

Florida was a case in point. Florida depends on tank vessels to deliver its fuel and storm preparations, and evacuations deplete fuel supplies. The ports closed during the storms, but when they reopened, in the words of one reporter, a Jones Act armada was waiting to resupply the State with petroleum. Dozens of Jones Act vessels were streaming into Florida ports to help their fellow Amer-

Puerto Rico was another example. As you all know, the original story was that the Jones Act was impairing the recovery effort. That was patently false. Thanks to your hearing last October, among other factors, the story quickly changed and the truth came out. The Jones Act fleet was steadily delivering containers to the island, which were stacking up on the terminals due to infrastructure issues inland. The Jones Act fleet was and continues to be a major part of the recovery effort, with almost 80,000 containers delivered to the island so far. Our carriers stepped up to help Puerto Rico, and they remain committed to Puerto Rico for the long term.

I would be remiss if I didn't finish by mentioning our industry's commitment to hiring veterans. When we have jobs to offer, we love for those jobs to be filled with veterans. AMP has run a series of programs to encourage hiring of veterans, and we will be doing more. AMP has a new Military to Maritime website, militarytomaritime.org, which is a central location where applicants can go to receive information on careers in the maritime industry.

I appreciate the opportunity to represent our industry here today. As we face the challenges ahead and work to see our industry return at least to profitability, if not prosperity, we are grateful that the members of this subcommittee have taken the time to understand our industry. And never was that understanding more important than during the recent hurricanes. With the airwayes filled with so much misinformation, you helped set the record straight and we are so grateful for that. Thank you.

The American Maritime Partnership stands ready to help as you address the issues related to our industry. We would be happy to answer any questions now or in the future. And I would request that my written remarks be entered into the record.

Mr. HUNTER. Without objection, so ordered. And our condolences, too, on your promotion.

Mr. Hunter. Mr. Ebeling, you are recognized.

Mr. EBELING. Good morning, Chairman Hunter, Ranking Member Garamendi, and members of the committee. Thank you for the opportunity to appear before you today to discuss the state of the U.S.-flag international fleet. My name is Eric Ebeling, and I am here today on behalf of USA Maritime, a coalition consisting of American vessel owners and operators, trade associations, and maritime labor.

As the president and CEO of American Roll-On Roll-Off Carrier Group, a New Jersey-headquartered company, it is my honor to lead an incredibly talented team of men and women at the largest U.S.-flag RORO operator. We own and operator eight roll-on roll-off vessels in international trade, all of which are enrolled in the Maritime Security Program. Our newest ships, MV *Patriot* and MV *Liberty*, joined the fleet in 2016 and 2017, respectively. All our vessels are crewed by American mariners and fly the American flag.

The commitment U.S. carriers make to the national security of the U.S., through programs like the Maritime Security Program, MSP, and ironclad contracts like the Voluntary Intermodal Sealift Agreement, VISA, and the global shipping, intermodal, and logistics services U.S. carriers provide to the Department of Defense,

are a clear best value buy for the taxpayer.

It is well documented that the U.S. Government does not have a sufficient organic fleet, nor the intermodal and logistics capabilities to do the job entirely on its own. Studies have shown that it would cost the U.S. Government tens of billions of dollars to organically obtain those same ships and services. We have a great industry-Government-labor partnership with clear and significant advantages, mutual benefit, and we must maintain it or risk losing the ability to deploy and sustain such asymmetrical logistics advantages.

According to MARAD, there are currently 82 non-Jones Act U.S.-flag international fleet vessels. Over the last 5 years, the U.S.-flag international fleet has decreased by about 25 percent. Not only do U.S.-flag carriers in international trade compete in a hypercompetitive global marketplace, but we are also uniquely sensitive to the ebb and flow of Government policymaking, which, when translated to an economic impact on the U.S.-flag carriers, can destabilize or support or even turbocharge investment in the U.S.-flag international fleet.

The two most effective policies that support the U.S.-flag international fleet are MSP and the cargo preference laws. MSP is a proven national security program enacted to ensure that the United States has the U.S.-flag sealift capability and trained Amer-

ican citizen merchant mariners it needs in time of war or other na-

tional emergency.

At the ship-naming ceremony for ARC's MV *Liberty* in June 2017, Department of Transportation Secretary Elaine Chao called MSP a model public-private partnership. At a cost of \$300 million per year, as currently authorized, the program is an exceptional value for DoD and the taxpayer. But the program is only authorized until 2025, and it is critical that it is extended beyond 2025

as soon as possible.

Participating companies must finance the purchase of replacement tonnage, a 30-year asset that may cost up to \$80 to \$100 million, based on a program that expires in a few years, and is subject to the annual appropriations process. This could be considered akin to going to your local bank with a proposal to buy a home with a 30-year mortgage, knowing that you only have 1 year of income. Carriers have collectively invested billions of dollars. But for this investment to continue or increase, continued stable funding is vital. And the program must be extended or simply made permanent.

Cargoes generated by the cargo preference laws are the key incentive for U.S.-flag operators operating in international trade to remain under U.S. registry, and are part of Congress' long-established intent to support the privately owned and operated U.S.-flag fleet and merchant marine. It is a rather simple equation: without cargo, carriers will not invest in ships and, without ships, there will not be jobs for merchant mariners.

Without those merchant mariners, the Government-owned Reserve Fleet cannot be crewed. To that end, we offer three sugges-

tions.

First, as the ranking member noted earlier, Congress passed legislation in 2008 to give MARAD stronger cargo preference enforcement tools. Unfortunately, the previous administration did not implement them. Congress should work with the administration to ensure faithful implementation and execution of these laws.

Second, under America's cargo preference laws, 100 percent of all military cargoes and at least half of all civilian agency cargoes must be shipped on U.S.-flag vessels. Why not require 100 percent of all Government-owned or financed cargoes to move on U.S.-flag

ships?

Lastly, Ex-Im Bank, the national export credit agency of the U.S., needs a board quorum that can approve new projects. Without an Ex-Im Bank, America has effectively unilaterally disarmed. And while most of the impact has been felt by the American manufacturing base and workforce, there has been an attendant impact to national security in the form of a reduced U.S.-flag fleet and reduced manpower pool.

The U.S.-flag fleet has been at a crossroads in recent years. We now have knowledgeable support of leaders at both the Department of Transportation in Secretary Elaine Chao, and the Maritime Administration in Administrator Buz Buzby. We also have had steadfast leadership and support from USTRANSCOM and its com-

mander, General Darren McDew.

As General Darren McDew noted in an October 2017 speech, "We don't know when, but some day the Nation is going to come calling.

When she does, she will need us, she will need our ships, she will need our mariners...if we do nothing now, the strength of the maritime fleet that brought the Nation to war throughout history...that

strength will not be here. It is already in decline.'

It is incumbent on all of us as Americans to stay that decline and ensure that this crown jewel capability continues to be available to USTRANSCOM and the Nation. And you can help by continuing to support laws and policies like MSP and cargo preference that enhance the fleet.

Thank you. I look forward to your questions.

Mr. HUNTER. Thank you. Thank you, Mr. Ebeling.

Mr. Aaron Smith is recognized as the president and CEO of Off-

shore Marine Service Association.

Mr. SMITH. Thank you, Chairman Hunter, Ranking Member Garamendi, members of the subcommittee. Thank you for allowing me time to speak this morning. My name again is Aaron Smith. I am president and CEO of the Offshore Marine Service Association. I ask for my full remarks to be submitted for the record.

OMSA----

Mr. Hunter. Without objection.

Mr. SMITH. Thank you, sir.

OMSA is the association of owners and operators of U.S.-flag vessels engaged in constructing, servicing, and maintaining offshore energy assets on our OCS. In total, we represent 170 member companies, U.S. companies, and their 12,000 employees. We are a

strong Jones Act supporter.

The first offshore well was drilled 11 miles off the coast of Louisiana in approximately 18 feet of water. Today, instead of 11 miles, projects are routinely done 100 miles from shore. And instead of 18 feet of water, they are done in 10,000 feet of water. This increasingly complex work yields increasingly complex vessels. To keep up, OMSA members modernize and recapitalize their fleet in U.S. shipyards and invest in thousands of highly skilled and compensated U.S. mariners.

In turn, these mariners participate in the Ready Reserve Force, and these shippards build assets for the Navy and Coast Guard. In

short, when enforced, the Jones Act works as intended.

The prolonged downturn in the worldwide energy markets has greatly impacted OMSA members. As Ranking Member Garamendi alluded to, more than half of OMSA member fleets are currently in cold stack or laid up in the mud. Those that are working are working at day rates below even OPEX. A recent IHS market survey found that vessels that were commanding a day rate of \$40,000 in 2012 now are working for a day rate of between \$9,500 and \$15,000.

However, as Matt alluded to, we are in a cyclical industry. We understand this. These are forces we understand. We have been through downturns before. We understand we will come out on the other side. So my members get that, they have been there before. The challenges that OMSA members can't understand is understanding why the Government fails to enforce the Jones Act.

More than the market downturn, this failure degrades the confidence in our industry and pits U.S. vessels against those that do not have to comply with the same tax, labor, or regulatory costs.

As you know, current law, as represented by the Jones Act in combination with OCSLA, is simple. It prohibits foreign vessels from picking up cargo at U.S. ports and transporting it to points on the U.S. OCS. Unfortunately, Customs and Border Protection has confused and degraded that clear standard via their issuing of private interpretations of the Jones Act between 1976 and 2009. Many of these letter rulings, as they are known, are directly contrary to the statute of the Jones Act.

In 2009, CBP realized their errors and issued a notice of its intent to revoke many of these flawed letter rulings. That notice was very candid in admitting that these letter rulings are "contrary to the legislative intent of the Jones Act." However, after accepting public comments on the revocation notice, and at the urging of foreign vessel owners and charters, CBP punted, saying a new issue

would be issued "in the near future."

Spurred by this potential enforcement of the Jones Act, OMSA members invested \$2 billion in U.S. shipyards, building dozens of state-of-the-art vessels capable of serving the market covered by this revocation notice. But we had to wait 8 years for that "near future" to arrive. It finally came 364 days ago, when CBP again issued a notice of its intent to revoke these flawed letter rulings.

Again, CBP accepted public comments on their notice. Like in 2009, OMSA members and thousands of our employees submitted comments in support, as did 34 Members of Congress and 10 Sen-

ators.

I would like to note half of this subcommittee signed those let-

ters. Thank you all.

Despite this acknowledgment, second acknowledgment that CBP itself was not following the law, and despite this public and political support, CBP again decided not to enforce the Jones Act on May 10th, issuing a notice that they were ending the revocation effort.

It is clear who benefitted from this decision. A London-based trade association for the international competitors of OMSA issued a press release saying that everyone should "celebrate a positive result." OMSA members were not in a celebratory mood. Twelve days after CBP stopped their revocation effort, one of my members lost a previously secured lucrative contract on the OCS. That vessel was provided cover by the same letter rulings that CBP had sought to revoke. It leveraged its lack of U.S. tax, labor, and regulatory compliance costs to underbid my member.

The problem continues. In September, CBP reversed a \$22 million Jones Act penalty. We believe that that penalty was issued under those same letter rulings that they sought to revoke. We believe this to be a strong signal to the international market that the

U.S. OCS is open to foreign vessels.

Again, the Jones Act has proven time and again that it can provide for our national, homeland, and economic security. But it can only do so when it is properly enforced.

I welcome any questions you have and thank you all again.

Mr. HUNTER. Thank you, Mr. Smith.

Mr. Paxton, you are recognized for 5 minutes.

Mr. PAXTON. Thank you, Chairman Hunter, Ranking Member Garamendi, and members of the subcommittee, for the opportunity

to provide testimony on the state of the U.S.-flag maritime industry. I ask that my entire testimony be submitted for the record.

Mr. HUNTER. Without objection.

Mr. PAXTON. In December 2016, the Navy released a new force structure assessment that called for a fleet of 355 ships. To achieve this buildup, a substantial and sustained investment is required in both procurement and readiness, but our industry stands ready to build and repair this fleet of the future.

Also critical to achieving this goal is strong congressional and administrative support of the Jones Act. The Jones Act ensures a commercial shipbuilding industry, supplier chain, and workforce that can support building and maintaining these Navy assets, mak-

ing it a major national security benefit.

It is for this reason that the U.S. Navy has always and continues to support the Jones Act. Long term, there needs to be a workforce expansion, and some shipyards will need to reconfigure or expand production lines to meet demands for both Government and commercial construction. However, the shipbuilding industry, like so many other manufacturing sectors, faces an aging workforce. Attracting and retaining the next generation shipyard worker is critical. Funding, predictability, and sustainability, along with fully and consistently enforcing the Jones Act, will allow industry to invest in facilities and more effectively grow its skilled workforce.

Consistent enforcement of the Jones Act is critical. A recent decision by the Department of Homeland Security to not revoke a series of letter rulings that have allowed foreign-built and foreign-crewed offshore supply vessels to operate in violation of the Jones Act has created uncertainty and resulted in numerous new U.S. vessel construction contracts to be canceled. I raise this issue as an example of how a decision by an agency to not properly enforce the Jones Act can adversely impact the entire shipyard industrial base.

Shipyard capacity is critical to recapitalize the Coast Guard's desperately needed fleet modernization, including inland waterway vessels, cutters of all sizes, and icebreakers. Almost all of the shipyards that are building Coast Guard vessels also build Jones Act vessels. It is because of this law that the Coast Guard is receiving such robust competition to build its various classes of ship, includ-

ing the polar icebreaker.

As we look at the current state of the U.S.-flag maritime industry, we need to ask ourselves what is next. Recently, our shipyards effectively built for the increased demand in the tanker market, due to the oil and gas boom. It is a testament to the Jones Act that the commercial shipbuilding sector mobilized rapidly to meet the market demand and built state-of-the-art tankers for that market. It was a true success for our industry.

In addition, our shipyards recently delivered numerous large oceangoing containerships to recapitalize the noncontiguous fleets. Vessel construction for these important shipping routes is ongoing at several shipyards, and will be completed in the coming years. A common misconception, however, is that without large vessel construction, the U.S. shipyard industry is dormant.

However, nothing could be further from the truth. In 2015 our industry delivered 1,438 Jones Act vessels. And in 2016 we delivered 1,329 vessels. Looking towards the future, we expect there

will be strong investment in expanded ferry and passenger vessel services, hopper dredges, commercial fishing fleet recapitalization, and a robust ATB market. We will also need to be ready to build training ships to support our maritime academies and recapitalize

the severely aging Ready Reserve Force.

As a closing observation, it is important to highlight to this committee that U.S. shipyards do not compete on a level playing field in the worldwide market. For example, last year South Korea's Government injected \$2.6 billion into one of their most prominent shipyards in order to keep the yard from going bankrupt. A September report from an international think tank found evidence that shipyard costs in China decreased between 13 and 20 percent between 2006 and 2012, leading to a substantial misallocation of global production with no significant consumer gains.

These are examples of the direct and indirect Government subsidies provided by South Korea, Japan, and China that have resulted in shipyards from those countries building for markets that did not exist at rates subsidized by those foreign governments. It is, therefore, an extreme misrepresentation to compare foreign sub-

sidized shipyard markets to that of the Jones Act.

Thank you, Chairman Hunter and Ranking Member Garamendi for allowing me to testify along such distinguished witnesses today, and I look forward to your questions.

Mr. HUNTER. Thank you, sir. Mr. Van Loo, you are recognized.

Mr. VAN LOO. Chairman Hunter, Ranking Member Garamendi, and distinguished members of the subcommittee, my name is Bill Van Loo, secretary treasurer of the Marine Engineers' Beneficial Association and a third-generation marine engineer. I am pleased to present testimony on behalf of the MEBA, the American Maritime Officers, the Masters, Mates and Pilots, and the Seafarers International Union.

Combined, our unions represent the men and women who operate U.S.-flag vessels in both the domestic and international trades, and we continue the patriotic tradition of supporting the military whenever and wherever needed. We are the fourth arm of defense.

Despite constant warnings from leaders in the Department of Defense, the pool of mariners has shrunk to a critical level. Without action, the military will no longer be able to rely on the American merchant marine. We appreciate the subcommittee's commitment to ensure the existence of a vibrant maritime industry.

Since 2011, the U.S.-flag international fleet has shrunk from 106 to 82. This should be concerning to every American. In order to change course and reverse the downward trend, we must protect and fully fund existing programs and create new programs and opportunities that will increase the number of U.S.-flag vessels. That effort should start with national maritime policy that ensures a steady stream of cargo which, in turn, creates employment opportunities for militarily needed U.S. merchant mariners.

By providing a minimal level of cargo, U.S.-flag preference shipping requirements are an essential to maintaining a strong industry. We strongly urge Congress to restore the U.S.-flag share of P.L. 480 Food for Peace cargoes to the 75-percent level that was in place since 1985 until 2012, when it was reduced to a mere 50

percent. It is no coincidence that the size of the U.S.-flag fleet has

shrunk by more than 26 percent as a result.

All too often, Federal departments and agencies and Government contractors have ignored U.S.-flag shipping requirements for the carriage of cargoes paid for by the U.S. American taxpayer. Not only are U.S.-flag vessels denied those cargoes, but there is no recourse when it is ultimately determined that the law was violated. We implore Congress and the administration to reinforce to all Federal agencies and their contracting officers that cargo preference laws must be adhered to.

In 2008, Congress passed the Duncan Hunter National Defense Authorization Act that made it abundantly clear that the Maritime Administration was the final enforcer of cargo preference. Unfortunately, the administration has failed to fully adopt that language, and we must be concerned that the refusal to implement this law indicates an unwillingness to abide by cargo preference laws. Congress required the administration to fully comply with cargo pref-

erence laws.

We also recommend that Congress should receive a detailed record of the bills of lading associated with the program.

It is very simple. Without cargo, our ships do not sail, and our

mariners will not be standing by in times of need.

Another key component of American maritime policy is the Maritime Security Program. The MSP is a unique public-private partnership that ensures that the DoD has the sealift capability and intermodal network it needs while cutting costs. It would cost the Government over \$65 billion to replicate the capacity provided by

While Government cargoes continue to decline, the MSP allows American ship operators to compete for commercial cargo with vessels that do not comply with our more stringent laws and regulations. We are pleased that Congress recently reaffirmed support for the program by increasing the authorized funding amount. In order to secure the availability of U.S.-flag ships and the American mariners, we ask for your help to secure full appropriations for the pro-

The export of strategic American energy assets presents an opportunity to increase the size of the fleet and associated employment opportunities. We support the efforts of Congressmen Hunter, Garamendi, and Duncan, and their legislation to require the exports of strategic energy assets to travel on U.S.-flag vessels.

I am a third-generation merchant mariner, and it is incredibly important to me and the labor organizations that I represent today that this industry is viable for generations to come. Not just for the important source of reliable middle-class jobs, but for the vital role that the U.S. merchant marine serves to safeguard our country's military, economic, and homeland security.

We are encouraged that the administration and Congress seem poised to consider comprehensive infrastructure policy. It is important that renewal of the U.S. merchant marine is considered as a part of that discussion. We stand ready to work with you to achieve these objectives. Thank you.

Mr. HUNTER. Thank you, Mr. Van Loo. And thank you to all of you. I am going to recognize myself.

I guess my first question is this. You have all very eloquently laid out how important the Jones Act is, the benefits of it, and the downside to losing it. What do you think is behind—you might even call it a deep state in our own Government with CBP and the administration. Why do you think that U.S. officials, or U.S. Government employees that work for the American people, want to get rid of the Jones Act? Why? Why do you think that is?

Mr. WOODRUFF. I will take—

Mr. Hunter. Because it—yes, please. Go ahead, Mr. Woodruff.

Mr. WOODRUFF. I think they are misguided. I think that they have people who are trying to get an undue advantage over a situation who are trying to tell them things that aren't necessarily true. And you know, there are a lot of people out there who are trying to make a buck, and they think that they can do so by promoting a false narrative about cost associated—

Mr. HUNTER. Well, let me make my question more explicit, then,

so you all have a better way to answer it, maybe.

Why would an American Government employee, whether it is CBP or Department of Energy or anything, want to outsource all of the shipping that they do? Meaning why would they not want Americans to do it? I mean they are not making money off of energy company X from Great Britain, right? They work for CBP. So why would they want to give preferential treatment of foreign countries over Americans?

[Pause.]

Mr. WOODRUFF. I can't-

Mr. HUNTER. Any of you, please. Help me out here.

Mr. PAXTON. Chairman Hunter, I think there is some inherent belief in free trade that the Jones Act is a protectionist statute, and therefore there is a belief that they don't want to enforce this or being guided by an administration that might—

Mr. HUNTER. Do any of you know of any maritime nation—I mean a nation around the world that is on the ocean or that can get to the ocean that does not have cabotage laws? Does one exist?

[No response.]

Mr. HUNTER. So every maritime nation in the world has a Jones Act, and we are one of them. We are not special. Every single maritime nation that I know of, industrialized nation, has cabotage laws. Why do you think people in our Government want to give foreign interests preferential treatment over Americans?

[No response.]

Mr. GARAMENDI. I think you stumped them.

Mr. Hunter. I mean there has got to be a reason. Any of you?

Mr. Smith. Mr. Chairman, if I could—

Mr. HUNTER. Well, we have all laid out the—what is going on, right? So tell me why.

Mr. SMITH. For CBP's part, in many cases, what I think you saw from 1976 through 2009 was lack of understanding of our industry.

Many of these letter rulings had confusing terms in them that built one upon each other, that talked about—when we finally got into CBP and explained what we were doing, they didn't understand that these blowout preventers or wellheads or jumpers or compressors, things that are one-quarter of the size of this room, were left on the sea floor. They thought, from the rulings they were given, or from the letter requests they were given, that that was "equipment of the vessel," and stayed with the vessel. And it wasn't until we told them that, no, that is left on the OCS for perpetuity, that they understood what was going on. And when they did, they issued the 2009 notice of revocation.

And so there is a lack of understanding for some when you receive a request for a ruling to understand what is actually going on.

Mr. HUNTER. Thank you. Anybody else want a try at this one? No? OK. I will just finish up by saying the absurdity of trying to take away America's cabotage laws, the reason that Great Britain was able to conquer the world from a little island is because they had a great navy. The reason we have been left untouched and didn't have the wars like World War I and II is because we got the Pacific and the Atlantic, so people can't drive tanks across our borders here.

In order for us to maintain the way of life as we know it, as a Nation that is secure and is able to project power, be it navy power or commercial power, the Jones Act is intrinsic to that. It is the cornerstone of all of them. And I think you all very eloquently laid

out how important it is.

But the absurdities of some of those in this Congress and in Government, to think that you want Korean or Chinese or name-yourcountry-made ships and taking away the entire American workforce of making ships and driving them and getting something from point A to point B in America, it is all—it is stupid, it is absurd. And I hope that we just keep educating and educating, because that is what it is going to take so that people understand what this is and how it is one of the cornerstones of our entire country's national security apparatus.

It is the Jones Act, and it is what allows us to project power and be the greatest country in the world. It is the Jones Act. That is

one of the cornerstones. And I firmly believe that.

Thank you for your testimony. I am going to yield to the ranking member.

Mr. GARAMENDI. Mr. Chairman, I couldn't agree with you more

on your point about the Jones Act and a cornerstone.

Into the details, gentlemen, I want to thank all of you for your testimony. And I want to get into a series of questions that we discussed with Admiral Nadeau. And it has to do with the letters of nonavailability.

If half of the offshore marine supply and work vessels are laid

up, how can there be a nonavailability? Mr. Smith?

Mr. Smith. Yes, sir. I believe the term for the letter is non-applicability, as in OCSLA does not apply to that vessel. And what they are being utilized for is, in some cases, yes, those letters, the vessels that have those letters, are taking work away from the vessels that my members own and operate.

In other cases, those vessels are doing completely legal activities, such as a drill ship or a MODU [mobile offshore drilling unit]. Those type of vessels are not transporting merchandise between two points on the OCS. And we do not have those vessels. So those vessels have letters of non-applicability, I am sure, and it would not matter.

But there are also foreign supply vessels that have letters of non-applicability that are operating on the OCS—those are the vessels that are taking work away from U.S.-built, U.S.-crewed, and U.S.-owned vessels.

Mr. GARAMENDI. You said earlier in your testimony that this dates back to 1976, and a series of letters that have come forward from the CBP, Customs and Border Patrol. Could you—and in your testimony you also discussed efforts that have been made to rectify the inaccuracy in those letters. Could you go into that in just a little bit more detail here, and lay out for this committee, and specifically what we might be able to do to rectify the situation?

Mr. SMITH. Certainly, sir. So, yes, starting in 1976 was the first letter ruling that we look at dealing with merchandise on the OCS. And that letter dealt with a pipeline barge that was transporting merchandise. From that it was declared that the lane of that pipeline was not a Jones Act activity. And that is not a point we are challenging right now, I do want to make that clear. But the other

activities, the ancillary activities, we are looking at.

Now, the CBP revocation effort also kept that pipeline ability in there, but also said you can't transport pipeline connectors, tools,

or other materials and leave them on the OCS.

Additional letter rulings have been issued for items such as de minimis activities. Basically, as long as you are not breaking the law too much, you can do what you are doing. Or unforeseen repairs was an interesting letter ruling. Someone submitted a letter ruling request for preventative maintenance, and CBP responded and said no, preventative maintenance is an intrinsically foreseeable activity. Well, the next letter ruling that came in said, well, we have an intrinsically unforeseeable activity. Is that allowed? CBP said yes.

We also had some for other similar activities. Hey, we are doing a permitted activity. And while we are doing that permitted activity, we would also like to do an unpermitted activity. Would you allow that? That was also agreed to. So that was kind of the letter rulings that built upon themselves—

Mr. GARAMENDI. I understand that you filed a lawsuit to try to clear up this situation. Is that correct?

Mr. Smith. Yes, we have, sir.

Mr. GARAMENDI. And that suit is proceeding?

Mr. Smith. Yes, it is.

Mr. GARAMENDI. What can we do, by law or—well, basically, by law to make clear that there is a differentiation between reasonable activities and unreasonable activities? Is there a lack of clarification in the current law? Does it need to be clarified?

Mr. SMITH. As I said in my testimony, sir, I think OCSLA and the Jones Act are very clear. If you are transporting merchandise from point A to point B, that has to be on a U.S.-built, U.S.-crewed vessel.

Mr. GARAMENDI. So it is really about the enforcement of the law. Mr. SMITH. Yes, it is, sir. And I understand that the committee is going to be having a hearing later this month on that, and I applaud that effort. Thank you all.

Mr. GARAMENDI. OK, very good. I want to go into another question area, and I am out of time, so I will wait until we come back around.

Mr. Hunter. Mr. Weber is recognized.

Mr. Weber. Gosh, John, you shocked me there. I thought you had 3 or 4 minutes left in you.

Mr. GARAMENDI. Thank you for yielding, and I will carry on.

Mr. Weber. Next time.

We appreciate you guys being here. I want to go back to something the chairman said—and, Mr. Chairman, you have been at this a lot longer than I have. You know, you are asking why was that happening, for example, with CBP. And y'all talked about some different ideas.

Well, I would submit this, that sometimes, in the name of free trade, maybe our bureaucrats think we need to be fair, we ought to be fair in this. There is a world market out there, and somehow we have got to, you know, be world-market-oriented and fair about it. But there is nothing fair when you are dealing with a lot of other countries who subsidize and do all the things that we know that they do.

So Duncan, maybe that is the answer to the question. Somehow we have gotten this idea that we need to be fair, we need to be the leader in fairness. Well, I submit that we want our economy to be the best. We need to be fairly in the lead. We want our national security to be best. We need to be fairly in that lead, and that is the fairness we ought to be concerned about.

Let me jump over to LNG. I know that—many of you may not know that I represent the gulf coast of Texas—the first three counties from Louisiana. The Sabine-Neches Waterway is currently sending out about 95 percent of the LNG from my country.

So we want to be in the lead, and we want to maintain that as long as we can. So the United States has become a leader in regard to LNG-powered vessels. How can we maintain that position to the benefit of the fleet, overall, as well as the safety and security, national security, and the economy of our Nation?

I will start with you, Mr. Woodruff.

Mr. WOODRUFF. You know, LNG propulsion, I think, is what you are——

Mr. Weber. You bet.

Mr. WOODRUFF [continuing]. Speaking of. It is a great opportunity to bring a cleaner, more environmentally friendly way of running a lot of our vessels. And I think it is just a matter of building out the infrastructure.

We have vessels that are LNG-capable now in the domestic fleet. The first containership that was capable of running on LNG in the world was built in America for the American market.

Mr. Weber. How long ago was that, do you—

Mr. WOODRUFF. It was about a year and a half ago——

Mr. Weber. Got you.

Mr. WOODRUFF [continuing]. That that vessel went into service, thereabouts. And there are many more coming along behind it. Now we are in the process of building out the bunker barges and the other infrastructure necessary. And so I think it is just going to be a matter of time. You have a bit of a chicken and an egg. You

need the vessels out there in order to incentivize the building of the bunker vessels. They are under construction now. And so I think it is something you will see growing over time.

Mr. Weber. Anybody else want to weigh in?

Mr. SMITH. Congressman, I have one of my members has a dualfuel fleet of OSVs that run on both natural gas and diesel. They have seen some good success with those. It lets the vessel stay out a long time because when you run out of one you just switch to the other. I am, of course, oversimplifying it.

But they have had some good success with those. If you are ever down in south Louisiana and it is not snowing in south Louisiana

I would invite you to come tour that vessel.

Mr. Weber. Is it snowing there today? Mr. Smith. It looks like it was. Yes, sir.

Mr. Weber. OK.

Mr. VAN LOO. U.S. mariners do have experience with LNG. And as LNG evolves and we get more experience, it will be beneficial for the industry.

Mr. Weber. Well, we would love to see that coming from our district, because that is very, very important to our district. And on the national market, you know, the United States is going to be sending a lot of LNG around the world, and we want to continue that. So everything we can to push that.

Let me change gears just a little bit here. A question for each of you. Does the strength of the U.S.-flag fleet bolster the credibility of the United States and the International Maritime Organization, or other international maritime organizations? And if you think that it does, how so?

We will start down here on this end, Mr. Van Loo.

Mr. Van Loo. Absolutely. Strength in numbers. The more U.S. flags we have on the international worldwide, the stronger the U.S. will look in the IMO and all the other international organizations.

Mr. Weber. And I will let you each go and then I have got a followup question.

Mr. Paxton?

Mr. PAXTON. Yes, sir. I think what you look at, if you look at our domestic fleet of 40,000 vessels waving the U.S. flag, we are the envy of the world. I think that is why you see so many foreign operators trying to—

Mr. WEBER. That actually is part of my second question, let me interrupt you. How close to other—who is the second country to that? We have 40,000. Who is second?

Mr. PAXTON. Well, because of the Jones Act, we have 40,000 vessels that operate under the U.S. flag in our waterway—

Mr. WEBER. I mean would you be privy to the information—

China, how many vessels they have, or—

Mr. PAXTON. I was going to go to my next point, which is you will often hear of reports of Australia lamenting the fact that they don't have a similar cabotage law, and they will have foreign operators run aground and hurt Australians and, you know, folks on those vessels. We don't have that problem here.

And so, I think that is the power of the U.S. flag, and it is also the power of the national security asset to have those vessels plying the waters—

Mr. Weber. And we want to maintain that.

Mr. Smith?

Mr. SMITH. Yes, Congressman. We have—OMSA has sent delegations to the IMO in most years in recent memory. And I know we have individuals going to the IMO within the next month. We look forward to that, and I know we are well respected and well received there because of the strength of our maritime industry and because of not only its number, but our technological capabilities and how, especially in our industry, we have led the world in developing these, these vessel types and capabilities.

Mr. Weber. OK. Mr. Ebeling?

Mr. EBELING. Thank you. Yes, the chairman mentioned actually the Jones Act as being one of the cornerstones, and you are—

Mr. Weber. Absolutely.

Mr. EBELING [continuing]. Mentioning that, as well. I would argue that there are actually three cornerstones, or a three-legged stool, if you will. It is the Jones Act, which obviously is essential, but also MSP, the Maritime Security Program, and the cargo preference laws. All three are essential to national security and economic security. And the strength of each leads us to having a stronger representation at the international level, including the Coast Guard being able to represent us at the IMO level as strongly as they do.

So thank you for the question.

Mr. Weber. Mr. Woodruff?

Mr. WOODRUFF. As the domestic fleet, we don't deal with IMO. We answer to you, who answer in turn to the American people. And we think that is the way it should stay. We don't think that the IMOs should be telling us how to move cargo within America.

Mr. Weber. Sure. But you all would all agree that the fact we have got 40,000 flagged vessels is probably a pretty good arrow in our quiver when it comes to national/international security.

Mr. Chairman, I thank you, I yield back.

Mr. HUNTER. I thank the gentleman.

Mr. Lowenthal, you are recognized.

Dr. LOWENTHAL. Thank you, Mr. Chair, and I thank all the panelists for being here. My question is for Mr. Smith.

As you have pointed out, last spring the CBP reversed its notice on the application of the Jones Act to oil field operations on the Outer Continental Shelf. That notice would have reversed, as you pointed out, a series of misguided rulings, and would clarify that subsea construction and other activities do fall under the Jones Act requirement.

And also from your testimony and also from an analysis from your association, you have identified over \$2 billion in investment to construct or retrofit 31 vessels to service these operations with Jones Act-compliant ships, and that this shipbuilding activity occurred between CBP's announcement in 2009 that it would revoke the flawed interpretations of the Jones Act regarding undersea operations and the new notice in 2017.

So with that as a frame, I want to ask you four questions, each one separately.

My first question is after this notice was revoked by the administration, what is the current status of these newly built or retro-

fitted vessels? And I will ask you the other questions after.

Mr. SMITH. Certainly. Thank you, sir. For these dozens of vessels referred to as multipurpose support vessels, or MPSVs, they are doing different things. Some are still on contract and engaged with different operators and different charters. They are capable of doing this work, they can beat any international vessel in doing this work. So they do get employed. Others are on Government contracts, and are doing services for NOAA or MSC or other Government agencies. But the majority of them are currently at the dock.

Dr. LOWENTHAL. So they are sitting idle.

Mr. Smith. They are—yes, sir. They are sitting idle.

Now, there are vessels that are—last I looked, there are, you know, let's call it circa 5 to 10 foreign MPSVs in the gulf right now, taking work away from Jones Act-qualified vessels. So there is some of that. That is down from historical averages, because of the downturn. But even outside of the downturn, we have, as you mentioned, built enough to cover capacity.

tioned, built enough to cover capacity.

Dr. Lowenthal. So you have—so I want—you have already answered my second question. So some have been shifted to other operations, oil operations or other duties, and some are sitting idle.

So a question I am asking you is was this a waste of \$2 billion? What do your members think? Did they waste its money now?

Mr. SMITH. I certainly would hope they wouldn't think of it as a waste, because we have a Government agency, which has twice said that they are not following the law. Sooner or later, that is going, I believe, to prove us right, to prove that we have been right. So these vessels have a long life span and will be utilized.

Additionally, and maybe it is a very small victory, but by building these vessels we have recapitalized some of Mr. Paxton's ship-yards here, which have then enabled those shipyards to participate in some very big Government projects. And again, I think that in itself proves that the Jones Act works as intended. And I am not

saying that is worth \$2 billion, but I do think that that shows something.

Dr. LOWENTHAL. All right. So let's say, as you say—you know, you are assuming that at some point we will do the right thing and CBP will change its interpretation and come back to the rightful interpretation that the Jones Act does cover this.

So the question is, if that occurs, what economic benefits do you think this proper enforcement of the Jones Act will have for your members? How will this impact your members? If what you are saying is ultimately the CBP understands and makes the right interpretation, how will this impact your members?

Mr. SMITH. You know, I think it will definitely provide an eco-

nomic benefit for our members.

But more than that, I would look at what it would provide for our Nation. And looking at that, my organization hired a domestic economist here from within the United States. And that economist found that correct interpretation of the Jones Act by CBP would create 3,200 new jobs in the United States, would put \$700 million into the United States economy, and would create wages of \$155 million—increase. That is, of course, in addition to the 500,000 men

and women in this country that are already employed due to the Jones Act.

Dr. LOWENTHAL. So what you are saying is if there was a correct interpretation of the Jones Act by the CBP, we truly would make America great again.

Thank you, and I yield back.

Mr. HUNTER. Amen. I would like to close here by yielding to the

ranking member, Mr. Garamendi.

Mr. GARAMENDI. I will try to do this quickly. Mr. Weber appropriately raised the question of the export of a strategic national asset, natural gas and LNG. It is estimated that just 10 years from now that it will take about 140 ships to export the potential LNG that is available in the United States for foreign trade. If just 5 percent of that were on American-built ships, we are talking some seven ships. Probably four, maybe five, would have to be built in the meantime.

Similarly, on crude oil, by 2028, if just 5 percent of the crude oil were to be shipped on American-built ships, we are talking some 12 ships. So if we were to require, as we once did with the North Slope of Alaska, that all of that oil be on American-built ships—but let's not be greedy, let's just say 5 percent—we could substantially increase the number of ships built in America by a significant number. Maybe half a dozen by 2028 in LNG, maybe a little less. Crude oil, probably in the range of 12 to 15 ships in just 10 years, giving new life to the commercial shipbuilding industry in the United States.

Now, the fact that we are proposing a piece of legislation that would do that brings me to the question to Mr. Paxton.

Can you do it? Is it possible that we could actually build commercial LNG ships for the international trade, as well as crude oil—

Mr. PAXTON. Yes.

Mr. Garamendi [continuing]. In that range over the next decade? Mr. Paxton. Well, first, I want to say thank you very much, Congressman——

Mr. GARAMENDI. Microphone.

Mr. PAXTON [continuing]. The work you have been doing on this. Your staff has been excellent. I appreciate your time spent with a lot of my members, working on really hard legislation.

But yes, the answer is we can meet that demand. Again, we still want to build that 355-ship navy. But, truly, building commercial vessels for LNG and crude export is what we did with the North Slope. I mean that was part of the deal.

And so, if we could have some configuration of that again, you know, I know you have been working with my trade association for a long time on this. We want to get it right, we want it to be defensible, and we want to fight for it along with this committee and with you, sir.

But yes, the answer is yes, we could do that.

I would say on LNG, as you know, sir, that is a very complex vessel. We haven't built those in a little while now. But based on my members and what I have been told, we could gear that up in time with timelines that we have seen in some proposals that you have been working on.

Mr. GARAMENDI. I thank you.

Mr. Van Loo, are the mariners available over that period of time? Mr. Van Loo. That is a concern. Because as the industry continues to decline, we are going to lose more mariners. So hopefully we have bottomed out, flat-lined, and we will be able to supply the mariners if it stays consistent or we can grow a little bit. It is tough to recruit when you are talking to young people about an industry that is not doing very well.

Mr. GARAMENDI. Well, our goal is to make sure this industry remains strong for the benefit of the committee members here. We will soon be bringing to all of our attention a piece of legislation that I think will have support from the shipbuilding industry, as well as the mariners, and probably not the petroleum industry, but 5 percent, 10 percent—they can do it, they could live with that.

With that, Mr. Chairman, you have a hard stop at 12 o'clock, so

I will yield back my remaining 1 minute.

Mr. HUNTER. I thank the gentleman. There are no further questions.

I want to thank all of you, just for all you do, all the time and effort you put in, and for doing something that is more important than just business. I mean this is, like we talked about, a national security cornerstone and an economic cornerstone of this Nation. So thank you very much for all that you do.

And with that, this subcommittee stands adjourned.

[Whereupon, at 12:02 p.m., the subcommittee was adjourned.]

STATEMENT OF

THE HONORABLE JOHN GARAMENDI
SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION
"THE STATE OF THE U.S. FLAG MARITIME INDUSTRY"

JANUARY 17, 2018

Thank you, and good morning. It has been more than three years since the subcommittee last convened an oversight hearing on the status of the U.S. maritime industry.

I want to thank Chairman Hunter for acting on my suggestion and scheduling this morning's hearing as this is a perfect opportunity to assess where the industry stands and gather suggestions for issues that this subcommittee can take up in the second session of the 115th Congress.

We already realize that several items deserve our dedicated attention, but by no means do these items represent the entire universe of issues and challenges.

First and foremost, we cannot become complacent in our defense of the Jones Act and our efforts – along with many of the organizations that will testify this morning – to raise public awareness of the need for, and the many benefits that flow from, this longstanding maritime policy that has stood for almost a century.

Second, we need to address the need to find new cargoes for U.S. flag vessels in both the international and the coastwise trades. More cargo means more ships and more ships means more good paying maritime jobs that both directly and indirectly support hundreds of thousands of U.S. workers and bolster national security.

To this end, we need better enforcement of existing cargo preference requirements, especially for food aid shipments. We need to utilize new trades, such as the export of U.S. crude oil and natural gas, as a means to expand the U.S. flag fleet.

We also need to look creatively at how best to recapitalize our Nation's Ready Reserve, Military Sealift, and Maritime Security Program fleets.

In addition, if there is going to be an infrastructure bill this year, we need to make sure that the infrastructure needs of our domestic maritime industries are not left behind at the dock.

Moreover, we have to begin shaping a tractable plan to recruit and retain a new generation of licensed and unlicensed seafarers.

The current cadre of mariners, which have served the commerce, and national security of the United States so admirably

since the end of the Vietnam War, is quickly aging out into retirement.

It is imperative that the Federal Government, along with its partners at the State Maritime Academies and the maritime unions, develop a comprehensive plan to ensure that the absence of a qualified and experienced maritime workforce does not become an Achilles heel limiting our military sealift operations.

I am sure that our witnesses here this morning will offer their own suggestions. With that thought in mind, I welcome our witnesses, and I look forward to an engaging discussion this morning.

Thank you.



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TESTIMONY OF REAR ADMIRAL JOHN P. NADEAU ASSISTANT COMMANDANT FOR PREVENTION POLICY

ON STATE OF THE U.S. FLAG MARITIME INDUSTRY

BEFORE THE HOUSE COMMITTEE ON TRANSPORTATION & INFRASTRUCTURE SUBCOMMITTEE ON COAST GUARD & MARITIME TRANSPORTATION

JANUARY 17, 2018

Good morning Chairman Hunter, Ranking Member Garamendi, and distinguished members of the Subcommittee. It is my pleasure to be here today to discuss the state of the U.S. maritime industry and the Coast Guard's role serving that industry.

The U.S. Coast Guard is the world's premier, multi-mission, maritime service responsible for the safety, security, and stewardship of the maritime domain. At all times a military service and branch of the U.S. Armed Forces, a federal law enforcement agency, a regulatory body, a first responder, and a member of the U.S. Intelligence Community, the Coast Guard operates on all seven continents and throughout the homeland, serving a Nation whose economic prosperity and national security are inextricably linked to broad maritime interests.

America's economic prosperity is reliant on the safe, secure, and efficient flow of cargo through the Marine Transportation System (MTS), which now includes 361 ports and more than 25,000 miles of river and coastal waterways. The Nation's waterways support \$4.5 trillion of economic activity each year, including over 250,000 American jobs. Transportation of cargo on water by the maritime industry is the most economical, environmentally friendly, and efficient mode of transport. The maritime industry and MTS connect America's consumers, producers, manufacturers, and farmers to domestic and global markets. Similarly, our national security depends on a healthy maritime industry and reliable MTS. The majority of the military equipment used by the Nation's warfighters is loaded in U.S ports and delivered to theatre on Coast Guard-inspected merchant vessels that are manned by civilian merchant mariners.

¹ "Ports' Value to the U.S. Economy: Exports, Jobs & Economic Growth." American Association of Port Authorities, http://www.aapa-ports.org/advocating/content.aspx?ItemNumber=21150, Accessed April 17, 2017.

As the lead federal regulator for the maritime industry, the Coast Guard must be attentive to the industry's changing needs and dynamic challenges. Amidst emerging trends within the MTS and the maritime industry, the Coast Guard's underlying concept of operations and our approach to continuous improvement remains unchanged. We continue to conduct our work using a consistent and enduring concept of operations that has successfully guided us for decades: the Coast Guard develops standards for safe, secure, and environmentally sound operations in the MTS; the Coast Guard assesses and enforces compliance with those standards; and when failures occur, the Coast Guard aggressively investigates them and drives the lessons learned back into our compliance and standards activities. These three phases of operations rely on our ability to leverage our marine safety workforce, engage governmental, non-governmental, and industry partners, and properly manage information and risk.

The Coast Guard's marine safety program and regulatory process advance economic prosperity and national security by leveraging our unique capabilities to ensure that the maritime industry and MTS operate safely, predictably, and securely. We are mindful of the need to facilitate maritime commerce, not impede it. Our marine safety program does this by establishing a level playing field for industry through a framework of common-sense regulations that are enforced in a predictable and consistent manner. The Coast Guard's regulatory standards and compliance functions also promote investment and innovation throughout the maritime sector by providing the means for investors and operators to evaluate and manage risk. This regulatory framework enables U.S. shipping to compete internationally and U.S. ports to compete equally against each other, while protecting American interests from the risk of substandard shipping.

In recent years, the maritime industry has undergone a series of cyclical changes. Within the last ten years, dramatic increases in U.S. energy production led to new construction of U.S.-flag tank barges and tank ships, and sharp increases in shipments of petroleum and petro-chemicals throughout our Nation's ports and waterways. The expansion of oil exploration and production further offshore led to an increase in the size, complexity, and number of offshore support vessels. Though a recent prolonged downturn in the price of oil has eroded much of the oil and gas exploration and related support activity on the outer continental shelf, the volume of oil, petrochemicals, and liquefied natural gas shipments are still reaching new highs. At the same time, legislative and regulatory changes have led to increased oversight of fishing and towing vessels. The Coast Guard is now examining or inspecting as many as 6,000 additional commercial fishing vessels and 5,000 additional commercial towing vessels. Combined, these trends have shown that the maritime industry and Coast Guard are subject to rapid changes in demand and increasing volume, as technology accelerates commodity production and more vessels are brought under increased Coast Guard oversight.

Today, the maritime industry is an innovative and dynamic global industry that continually seeks new ways to efficiently meet stakeholder demands. To meet these growing demands and improve efficiency, the maritime industry is increasingly turning to new and emerging technologies, such as cyber systems, higher levels of automation, and new fuel sources. These technologies enable the maritime industry and MTS to operate with impressive reliability and capacity that drive efficiencies and economic benefits. The regulatory regime should not impede these developments. Our standards and compliance program must evolve to facilitate these changes safely and securely. As the pace and complexity of maritime commerce and operations have increased, third parties have enabled the regulatory regime to evolve and keep up with increasing demand.

Third party programs, such as the Alternate Compliance Program (ACP), have become a necessity upon which both the maritime industry and the Coast Guard rely. Like other flag states around the globe, the United States relies far more heavily on third parties today than ever before. However, as recently highlighted in the Coast Guard's investigation after tragic sinking of the El Faro, the Coast Guard must provide the final element of the safety framework with sustainable policy, oversight, and accountability. Now, more than ever, the system requires reform. The Coast Guard plans to establish a risk-based and enduring policy framework that is easily executable and enables more robust oversight of delegated functions. Further, recognizing that the ACP is only one program among many that rely on delegation of technical functions and services to third parties, it is imperative that changes we make to ACP be applied to all programs that rely on a similar structure.

A healthy maritime industry is vital to the nation's economic prosperity and national security. It is also dynamic and continually evolving to meet stakeholder demand. The Coast Guard's regulatory development and compliance programs evolve to keep pace with industry change and ensure the continued safety, security, and environmental compliance in the MTS. We are focused on ensuring every Coast Guard action sustains the smooth operation of the MTS, without imposing unnecessary costs on U.S. entities competing in a global industry.

Thank you for your continued support and the opportunity to testify before you today. I am happy to answer any questions you may have.

Question#:	I
Topic:	MERPAC Recommendations
Hearing:	The State of the Flag Maritime Industry
Primary:	The Honorable John Garamendi
Committee:	TRANSPORTATION (HOUSE)

Question: The U.S. military seagoing services provide their members with excellent training and experience. This training and experience are also relevant in the commercial Merchant Marine. The U.S. military relies on the U.S. Merchant Marine to provide sealift during times of crisis and war. Due to myriad reasons, the U.S. Merchant Marine is reaching a critical threshold of not having enough trained and experienced mariners particularly, in the age range of 32-45, to meet current war plans. Men and women retiring or separating from the Navy, Army and Coast Guard, with skills in the shipboard deck and engine departments, are particularly suited to fill this "age-skill" gap. However, numerous institutional and cultural hurdles make it difficult to capitalize on their skills. The Subcommittee on Coast Guard and Maritime Transportation convened two separate listening sessions in 2016 to engage and encourage the military services and maritime industry to collaborate to eliminate or ameliorate existing barriers. The Merchant Marine Personnel Advisory Committee (MERPAC) in February 2017 provided to the Coast Guard 88 recommendations to streamline the processes for military mariners to obtain their U.S. Merchant Mariner credentials and increase participation among the military services in developing training courses and cross walks.

What is the status of these MERPAC recommendations?

Response: MERPAC has been an invaluable advisory body to the Coast Guard on all merchant mariner issues. Since 2001, MERPAC submitted to the Coast Guard 92 recommendations associated with military education, training, and assessment for STCW and national certifications. Of the 92 recommendations, 49 are for USCG action, 31 are shared with the other military services or federal agencies, and 12 are directed to other agencies and organizations. 53 of the recommendations are implemented and closed. Of the remaining 39 open recommendations, 24 are for USCG action, 11 are shared with the other military services, and 4 are directed to other agencies and organizations. The Coast Guard continues to work on the outstanding recommendations within our purview.

Question: What does the Coast Guard intend to do with them?

Response: The Coast Guard will continue to review and act on MERPAC recommendations to support military to mariner transitions.

Question#:	2
Topic:	B1 Visas
Hearing:	The State of the Flag Maritime Industry
Primary:	The Honorable John Garamendi
Committee:	TRANSPORTATION (HOUSE)

Question: Regarding the Coast Guard's issuance of B1 visas to allow foreign mariners to work on vessels employed on the U.S. Outer Continental Shelf (OCS), please provide responses to the following questions:

In your estimation, how many foreign crewmembers have been granted B1 OCS visas by the Coast Guard?

Response: The U.S. Department of State (DOS) issues visas (e.g., a B1 OCS visa). We defer to DOS for all matters related to the issuance of any visa.

Question: Does the Coast Guard have a process to track the location and employment of foreign mariners after the issuance of a B1 visa?

Response: The Coast Guard does not track the location and employment of foreign mariners who have been issued a B1 visa. As we understand the process, the Department of State (DOS) issues the visas, and Customs and Border Protection (CBP), via the I-94 process, decides who may actually enter the U.S. and for how long. The Coast Guard is not familiar with whether or how DOS or CBP tracks those foreign mariners who were granted entry into the U.S. by CBP.

Question: How many vessels operating today on the OCS are exempt from having to employ American maritime workers because they are more than 50 percent foreignowned?

Response: There are currently two foreign-flagged vessels on the OCS that have been issued a Letter of Non-Applicability (LOA), and both of these vessels have reported a departure date of February 28, 2018. The Coast Guard tracks vessel arrivals to the OCS and U.S. ports daily by screening and vetting each vessel's advanced notice of arrival. Because of the specialization needed in the oil and gas industry, vessel contracting is quite unpredictable (i.e., a vessel issued an LOA may never come to the U.S. OCS, or it may just be here for a few days or weeks, to return years later or never again). Even if a vessel was issued an LOA, there is no guarantee that the vessel will actually arrive on the U.S. OCS, or any indication as to how long the vessel will remain on it.

Question#:	3
Topic:	Jones Act
Hearing:	The State of the Flag Maritime Industry
Primary:	The Honorable John Garamendi
Committee:	TRANSPORTATION (HOUSE)

Question: Additionally, Customs and Border Protection (CBP) has admitted twice that it is not properly enforcing the Jones Act on the OCS. Notwithstanding this admission by CBP, neither CBP nor the Coast Guard has proposed an official remedy to ensure proper enforcement of the Jones Act on the OCS.

Is it the Coast Guard's position that the movement of energy cargoes between two U.S. points is subject to the Jones Act?

Response: The Coast Guard does not determine what types of cargo movements are subject to the Jones Act. CBP makes these final determinations.

Question: If foreign vessels transfer energy cargo within two points of the United States, does that constitute a violation of the Jones Act?

Response: The Coast Guard does not determine what types of cargo are subject to the Jones Act. CBP makes these final determinations.

Question: Does sufficient domestic U.S. capacity presently exist to meet that demand? In your opinion, can U.S. vessels compete with foreign vessels?

Response: The Maritime Administration (MARAD) tracks the availability of U.S. tonnage and works to ensure U.S. competitiveness with foreign fleets.

Question#:	4
Topic:	Rulemaking
Hearing:	The State of the Flag Maritime Industry
Primary:	The Honorable John Garamendi
Committee:	TRANSPORTATION (HOUSE)

Question: The Coast Guard has indicated that its highest rulemaking priority is to complete the proposal to increase the dollar thresholds for reporting marine casualties, to account for the inflation that has occurred over 40 years without corresponding adjustments to the dollar thresholds. This rulemaking is in line with the Administration's emphasis on regulatory relief for the private sector.

What is the status of this rulemaking? When will the Coast Guard issue the final rule?

Response: The Final Rule for the Marine Casualty Reporting Property Damage Threshold published in the Federal Register on March 18th, and will become effective on April 18th.

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New Resources
The State of the Flag Maritime Industry
The Honorable John Garamendi
TRANSPORTATION (HOUSE)

Question: Between, 2008 and 2012, the Coast Guard increased personnel (over 500 FTEs) and funding to execute its marine safety mission. Use of these new resources was guided by the Marine Safety Enhancement Plan (Plan) submitted to Congress by then-Commandant Thad Allen in September 2007. Oversight by the Subcommittee on Coast Guard and Maritime Transportation was instrumental in prodding the Coast Guard to develop the Plan.

Please describe how the Coast Guard used the additional resources directed to its marine safety programs to implement the Plan?

Response: As noted in the 2012 Marine Safety Long Term Strategy, Performance Plan, and Annual Report, from 2008-2012, the Coast Guard added billets across the marine safety program. These billets included marine inspectors, marine investigators, engineers, fishing vessel examiners, towing vessel coordinators, and other field positions. With these resources, the Coast Guard also created additional industry training quotas for Coast Guard members, established six National Centers of Excellence, and improved credentialing efficiency through centralization at the National Maritime Center.

Question: After 10 years, has the Coast Guard achieved the goals of the Plan? If not, why not?

Response: The Marine Safety Enhancement Plan assessed the challenges to the Coast Guard's marine safety program in 2007 and set a course to correct these issues. While many of the objectives from 2007 were met, the Coast Guard has not fully met the goals associated with information management, marine inspector training, and improved performance measures. Following the tragic loss of 33 mariners aboard *El Faro*, the Coast Guard needs to not only meet the goals of the Plan, but also provide effective oversight to third party organizations that provide compliance services on our behalf. The Coast Guard is taking a number of steps to accomplish this. We are reforming our oversight program and directing changes to our organization, procedures, policy, training, and information management to ensure accountability for the maritime industry, authorized classification societies, and ourselves. The Coast Guard has the authority and competency needed to successfully accomplish this.

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Subchapter M
The State of the Flag Maritime Industry
The Honorable John Garamendi
TRANSPORTATION (HOUSE)
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Question: New Subchapter M regulations now require the Coast Guard to inspect 5,000 towing vessels.

What impact will the inspection of Towing Vessels have on the goals established under the Plan?

Response: Implementation of Subchapter M will add approximately 5,700 towing vessels to the U.S. inspected fleet, an increase of 45%. This additional workload will require additional inspection hours and could stress the Coast Guard's ability to provide timely services to the maritime industry.

Question: The Coast Guard added over 100 personnel billets between 2008 and 2012 specifically for towing vessel inspection. Are these resources fully engaged in towing vessel inspection and oversight of third Party inspectors and surveyors?

Response: Since the compliance date for the new towing vessel regulations is July 20, 2018, there has not been a demand to use these billets to inspect towing vessels or conduct third party oversight. Over the past several years, these billets have been used in the towing vessel bridging program to prepare vessels to meet the new regulations. In keeping with the multi-mission nature of the marine safety program, personnel assigned to these positions also participate in other domestic vessel marine inspections, foreign vessel examinations, facility inspections, waterways management, and marine casualty investigations, to best address the highest risks within each of the 41 Captain of the Port zones.

These resources are fully engaged in towing vessel inspection and third party oversight.

Question: Will resources presently devoted to inspection of other U.S. vessels, including passenger vessels, have to be decreased in order to meet this new demand?

Response: The Coast Guard may need to realign resources to meet the demand created by adding approximately 5,700 vessels to the domestic inspected fleet. When assigning resources to various areas of emphasis, each Officer in Charge of Marine Inspections will take a risk-based approach to place an emphasis on the vessels and vessel systems that have a history of poor performance, present a higher rate of failure, or have a high consequence of failure.

STATEMENT OF MARK H. BUZBY ADMINISTRATOR MARITIME ADMINISTRATION U.S. DEPARTMENT OF TRANSPORTATION

BEFORE THE

COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION U.S. HOUSE OF REPRESENTATIVES

THE STATE OF THE U.S. FLAG MARITIME INDUSTRY

January 17, 2018

Good afternoon, Chairman Hunter, Ranking Member Garamendi and members of the Subcommittee. I appreciate the opportunity to discuss the state of the U.S Flag Maritime Industry, and ask that my written statement be entered in the record.

The statutory mission of the Maritime Administration (MARAD) is to foster, promote, and develop the maritime industry of the United States to meet the Nation's economic and security needs. Congress long ago recognized that it is necessary for national defense, and development of domestic and foreign commerce, that we have a U.S. merchant marine capable of serving in times of war or national emergency, and composed of the best-equipped, safest, and most suitable types of vessels, constructed in the U.S., and crewed by trained and efficient citizen mariners.¹

Unfortunately, over the last few decades, the U.S. Maritime industry has suffered losses as companies, ships, and jobs moved overseas. MARAD will continue to leverage, as appropriate, the current mainstays of the Merchant Marine: the Jones Act, the Maritime Security Program (MSP), and Cargo Preference. Cargo is a main factor determining the number of ships in the U.S. flagged fleet, and the number of ships then influences the number of mariners who are available to run those ships and maintain a strong, resilient, U.S. Merchant Marine. However, as illuminated by the President's National Security Strategy, we live in an increasingly competitive world which requires us to rethink how we address long-term strategic issues facing the industry.

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^{1 46} U.S.C. 50101

THE U.S.-FLAG FLEET

MARAD is charged with ensuring that U.S.-flag ships and merchant mariners are available to meet Department of Defense (DOD) sealift requirements. A key to completing that mission is doing what we can within the law to make them better able to compete in international commerce.

The fleet of U.S.-flagged, privately-owned, and commercially operated vessels, along with government-owned vessels, provides critical sealift surge and sustainment capacity to move equipment and materials for the Armed Forces. When needed, these resources can also support other Federal agencies during times of humanitarian crises, and natural disasters such as we witnessed this summer in the wake of Hurricanes Harvey, Irma, and Maria.

The following example draws a distinction between two conflicts. During one of these conflicts, the U.S. military overseas relied on foreign vessels and, during the other, they relied on U.S. flag vessels, including the Reserve Ready Force. During the first Gulf War, the U.S. found it necessary to employ foreign vessels to meet sealift needs; however, 13 of the 177 foreign vessels carrying essential supplies hesitated or refused to enter the area of operations, resulting in a loss of 34 transit days for ships carrying cargo for U.S. troops. During later U.S. military overseas contingency operations in Iraq and Afghanistan from 2002 to 2010, over 95 percent of all military ocean-borne cargoes were moved on U.S.-flag vessels and government-owned sealift vessels activated from reserve status and crewed by U.S. citizen mariners. The U.S. military, the most powerful military in the world, relies on U.S.-flag vessels crewed by U.S. civilian mariners, operating from strategic ports, and using intermodal systems to ensure delivery of vital supplies and equipment to service members and their families stationed overseas.

This transportation partnership between the U.S. military and the U.S.-flag merchant marine has been proven as reliable, enabling, and cost effective to meeting sealift requirements³. DOD has long relied on commercial augmentation to meet sealift requirements in peace and war. Access to commercial fleets is formalized through DOD contracts, MARAD Voluntary Intermodal Sealift Agreement (VISA), the Maritime Security Program (MSP), and the Voluntary Tanker Agreement (VTA). Through these programs, DOD gains critical access to U.S. commercial capabilities and the merchant mariners that will crew the government fleet. Since their inception in the mid 1990's, these commercial augmentation programs have provided the federal government assured access to a significant amount of capacity and intermodal capabilities that cannot be replicated by government sources. One alternative to support for a mix of Government and privately-owned vessels contemplated by current authorities, is the development of an expanded, all Government-

² So Many, So Much, So Far, So Fast: United States Transportation Command and Strategic Deployment for Operation Desert Shield/Desert Storm/ James K. Matthews, Cora J. Holt, p. 136.

³ Global Reach: Revolutionizing the Use of Commercial Vessels and Intermodal Systems for Military Sealift, 1990-2012. A.J. Herberger

vessel fleet the cost of which would be dramatically larger, because we would have more vessels to maintain in standby status

The U.S.-Flag Fleet in Facilitating Coastwise Trade and Supporting National Security

As early as 1817, Congress established legislation restricting foreign flag vessels from trading between US ports. Current U.S. coastwise trade laws⁴, commonly referred to as the Jones Act, require the use of qualified U.S.-flag vessels to carry goods in domestic commerce, which includes transportation between and among the U.S. mainland, Puerto Rico, Hawaii and Alaska.⁵ This law aims to supplement our national security priorities by supporting the shipyards, repair facilities, and supply chains that produce and repair American built ships, supports a pool of professional Mariners to operate them, and ensures that intermodal equipment, terminals and other domestic infrastructure are available to the U.S. military in times of war or national emergency. Coastwise trade laws promote a strong and vibrant U.S. domestic maritime industry, which helps the United States maintain its expertise in shipbuilding and maritime transportation. The Jones Act also ensures that vessels navigating on a daily basis among and between U.S. coastal ports and vulnerable inland waterways are operating with U.S. documentation and crew rather than under a foreign flag with foreign crew.

More than 40,000 vessels operate in U.S. coastwise and inland trades. While most of this number represents non-self-propelled barge vessels, there are one hundred large privately-owned, self-propelled oceangoing vessels (1,000 gross tons or more) in domestic U.S. trade. While the number of large self-propelled coastwise vessels is down from 221 in 1992, almost 100 ships of that number resulted from the retirement of older single hull, self-propelled tankers, and reduction of Alaska North Slope oil production.

U.S. Shipbuilding Industry

In 2013, American shipbuilders directly employed 110,000 Americans and produced \$37.3 billion in gross domestic product.⁷ As of January 2018, there are five large oceangoing container vessels (some with roll-on/roll-off capacity) under construction, four on order, and plans for two more. In addition, there are many hundreds of commercial tugs, barges, and

⁴ Now codified at chapter 551 of 46 United States Code.

⁵ Currently, 91 large U.S.-flag self-propelled ocean-going vessels operate in U.S. domestic commerce. Although this segment of the fleet does not depend on government-impelled cargos, the crews of these vessels are qualified to operate sealift ships in the Government reserve fleet.

⁶ Sources: 1992 fleet size from MARAD Historic Fleet Reports and Fleet Lists. December 1, 2017 fleet size from MARAD Merchant Fleet Report. See: https://www.marad.dot.gov/resources/data-statistics/

⁷ USDOT/Maritime Administration, The Economic Importance of the U.S. Shipbuilding and Repairing Industry, November 2015, at https://www.marad.dot.gov/wp-content/uploads/pdf/MARAD_Econ_Study_Final_Report_2015.pdf

specialty vessels for the Jones Act market under construction or on order. These civilian shipyards and related industries are part of the Nation's shipbuilding and repair industrial base. Demand for vessels qualified for Jones Act trade plays an important role in ensuring that there is adequate American expertise and capacity to meet national shipbuilding needs and that these shipyards remain available when the military needs them. This is particularly true for the skilled shipbuilding and repair workforce.

The U.S. Flag-Fleet in International Trade

Over the last 25 years, the number of U.S. flagged vessels sailing in the international trade has varied from 183 ships in 1992 to 82 as of December 2017 (Figure 1). There was a rise and decline in the number of U.S. flagged vessels beginning in 2001 triggered by military operations in Iraq and Afghanistan and the subsequent drawdown.

The change in the tonnage capacity since 1992 is significantly less than the change in vessel numbers. In 2014, the total deadweight ton capacity of containerships and roll-on/roll-off vessels was about 95 percent of its 1992 total even though the number of U.S.-flag vessels in 2014 was only 81 vessels. The percentage of U.S. international commercial cargoes by weight carried on U.S. flagged vessels has fallen from 4 percent in 1992 to approximately 1.5 percent today (Figure 2). However, even though the tonnage capacity has not decreased at the rate ships, fewer vessels means fewer jobs available to U.S. mariners, which could impact readiness.

Given the comparatively higher costs of operating a U.S. flag vessel, privately-owned.¹¹ and operated ships remain under U.S.-flag only if there is dedicated cargo to move. U.S.-flag vessels have higher operating costs than a foreign flag carriers competing for US commercial imports and exports (i.e., not government-impelled) absent U.S. government direct and indirect subsidies.¹² Moreover, the reductions in government-impelled defense cargoes due to the winding down of wars in Iraq and Afghanistan have been the principal cause of the decline in recent years. Other factors, such as the decline of non-military cargo volumes have also contributed to the decline.

¹⁰ MARAD Calculation using CBP, Census, and commercial data sources

¹¹ MARAD Calculation using CBP, Census, and commercial data sources

¹² USDOT/MARAD, COMPARISON OF U.S. AND FOREIGN-FLAG OPERATING COSTS, September 2011.

Figure 1: U.S.-Flag Share of Foreign Trade (2005-2015) Based on Cargo Weight. Source: Maritime Administration Analysis based on Census data. Prepared 7/7/2017.

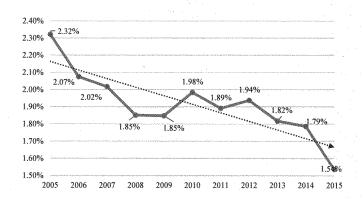
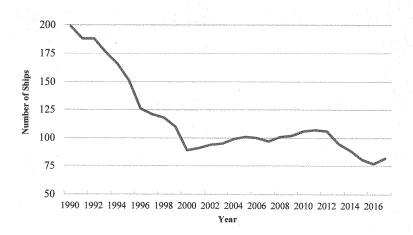


Figure 2: United States Privately-Owned Oceangoing Self-Propelled Vessels 1,000 Gross Tons and Above Operating in International Trades (1990-November 1, 2017). Source: MARAD 2000 - 2016 U.S.-Flag Privately-Owned Fleet Summary and MARAD Calculation using CBP, Census, and commercial data sources.



Cargo Preference Laws

Reacting to a decline in the number of US-flag ships available to move military equipment and to encourage an active, privately-owned and -operated, U.S.-flag fleet, Congress enacted several measures known as "cargo preference" laws between 1904 and 1954. These laws require shippers to use U.S.-flag vessels for ocean-borne transport of significant portion of certain cargoes purchased with Federal funds.

Specifically, 100 percent of military cargo, and at least 50 percent of most non-military government cargo transported by ocean, must be carried on U.S. flag vessels subject to vessel availability and fair and reasonable rates. The cargoes generated because of these programs help ensure the availability of a fleet of privately-owned U.S.-flag ships. The availability of preference cargoes helps to ensure these ships, mariners, and the supply networks they employ are available to transport Government supplies and equipment in the event of an emergency or armed conflict.

Maritime Security Program

The Maritime Security Program (MSP) subsidy program helps offset the costs of operating under the U.S. flag. The Maritime Security Act of 1996 (as amended) authorizes direct annual stipends for up to 60 active, commercially viable, militarily useful, privately-owned U.S.-flag vessels and crews operating in U.S. international trades, in return for the owner/operators' agreement to make the vessels available to the Government in times of war or national emergency. The MSP fleet ensures access to U.S.-flag ships, and estimated employment of up to 2,400 highly qualified U.S. merchant mariners, in ocean-borne foreign commerce – and most critically - with the necessary global intermodal logistics capability to move military equipment and sustainment cargo. Ships operating under the MSP may also carry cargo preference loads, which is an important incentive for vessels to participate in the MSP.

Under this program, participating operators must commit their ships, crews, global network of intermodal facilities and transportation resources upon request by the Secretary of Defense. Of the 82 U.S.-flag vessels that trade internationally, 60 currently participate in the MSP program. Over the past several years, MARAD has strengthened the process for retaining militarily useful ships in the program and has increased the militarily useful capacity of the fleet to meet DOD's requirements. The MSP has supported every U.S. conflict since its inception in 1996, including Operations Enduring Freedom and Iraqi Freedom, and these vessels stand ready to play a vital role in support of U.S. military operations worldwide.

The National Defense Reserve Fleet (NDRF) and Ready Reserve Force (RRF)

MARAD manages and maintains the bulk of our Nation's surge capacity, which is organized in the Ready Reserve Fleet. These 46 ships must be ready for operation within five days for transport of military cargo to critical areas of operation. The RRF functions as a part of the National Defense Reserve Fleet of retention and disposal vessels, and training ships which MARAD provides to state maritime academies, and serve additionally for disaster response in an emergency. RRF and NDRF ships were activated to provide support to other government agencies for recent relief efforts following Hurricanes Harvey, Irma, and Maria, and previously for Hurricanes Katrina, Rita, and Sandy and earthquake relief effort in Haiti. During these deployments these vessels supplied first responders with housing logistical support, and needed relief supplies, including critical Federal Aviation Administration air navigation equipment. MARAD is working with the U.S. Transportation Command (USTRANSCOM) and the US Navy to address the urgent need for recapitalization of the RRF to ensure the readiness of these 46 ships, the average age of which is 43 years.

Availability of Qualified U.S. Mariners

MARAD and DOD rely on the U.S.-flag commercial fleet operating in both the coastwise and international trades to employ enough qualified mariners to crew all the commercial cargo ships that might support military operations, plus the "surge fleet" of 61 Federally-owned cargo ships. As of today, the size and composition of the U.S.-flag commercial fleet is just adequate to meet immediate military contingencies; however, due to the historically low number of ships in both the domestic and international trading U.S.-flag oceangoing fleets over the past several years, MARAD is concerned that there might not be enough qualified mariners with required endorsements to operate unlimited horsepower and unlimited tonnage necessary to sustain a prolonged activation of the entire sealift fleet.

While it appears possible to find enough qualified American mariners for an initial four to six months of sealift surge, sustaining safe operations with qualified crew could be impacted if a sealift surge exceeded six months. Currently, we estimate that there are 11,768 qualified unlimited tonnage/horsepower active mariners available to crew either commercial or Government reserve sealift ships. The initial activation of the 46 MARAD and 15 Military Sealift Command surge vessels would require roughly 3,860 mariners for sustained operation. This is in addition to continued operation of much of the privately-owned commercial fleet.

In particular, there is a shortage of senior-level mariners with unlimited credentials who have sailed within the past 18 months. Contributing factors to this shortage include more stringent international training requirements and medical fitness standards, and the overall declining pool of billets in the U.S.-flag fleet. Given this assessment, I am working closely with the USTRANSCOM, the U.S. Navy's Military Sealift Command, the U.S. Coast Guard and the commercial maritime industry to develop proposals to maintain an adequate number of trained

mariners. Part of our coordinated effort is to further the Military to Mariner program which makes it easier for transitioning servicemen and women to obtain their mariner credentials based on their service experience. Additionally, MARAD is working with the U.S. Coast Guard and the maritime industry to better track licensed mariners who may no longer be sailing, but could serve in a time of crisis. Finally, MARAD is working to develop tools to understand and analyze changes in the numbers of fully qualified mariners in deck and engineering job categories who are trained and available to meet the Nation's commercial and sealift requirements at any given time.

The National Defense Authorization Act for Fiscal Year 2017 (FY 2017 NDAA) established the Maritime Workforce Working Group (MWWG) to examine and assess the size of the pool of qualified U.S.-citizen mariners necessary to support the U.S.-flag fleet in times of national emergency. The MWWG developed a report which is still being reviewed within DOT.

MARITIME TRAINING

MARAD provides funding and support for mariner training programs to produce highly skilled, U.S. Coast Guard (USCG) credentialed, officers for the U.S. Merchant Marine. The U.S. Merchant Marine Academy at Kings Point (USMMA) and State Maritime Academies (SMAs) graduate the majority of entry-level officers with unlimited USCG-credentials. This cadre of well-educated and trained merchant mariners support the U.S. marine transportation infrastructure, and serve our Nation when called upon to support military operations worldwide, national emergency, and humanitarian missions.

The U.S. Merchant Marine Academy

Like the other four other Federal service academies, West Point, the U.S. Naval Academy, the U.S. Air Force Academy, and the U.S. Coast Guard Academy, the USMMA is a premier accredited institution of higher education. Operated by the DOT and managed by MARAD, the USMMA offers a four-year maritime-focused program, centered on rigorous academic and practical 12 month at-sea technical training aboard US Flag ships that leads to a Bachelor of Science degree, a USCG merchant mariner credential with an unlimited tonnage or horsepower officer endorsement, and, upon application and acceptance, a commission as an officer in the Armed Forces or other uniformed services (National Oceanographic and Atmospheric Administration Corps or the U.S. Public Health Service Corps) of the United States. USMMA graduates incur an obligation to serve five years as a merchant marine officer aboard U.S. documented vessels or on active duty with the U.S. Armed Forces or uniformed services. If not on active duty, they must serve as a commissioned officer in a reserve unit of the U.S. Armed

¹³ The Secretary of Transportation is specifically authorized to provide education and training to U.S. citizens for the safe and efficient operation of the U.S. Merchant Marine in 46 U.S.C. § 51103(a). See also, 46 U.S.C. Subtitle V Part B. See Chapters 511, 513, 515 and 517.

Services for eight years. The USMMA is the single largest annual contributor to the US Navy's Strategic Sealift Officer community, sponsored by the Commander of the Military Sealift Command. These officers form a critical part of the sealift manning equation because of their service obligation to maintain their license and respond to emergency manning of RRF shipping.

DOT, MARAD, and the USMMA take sexual assault and sexual harassment at the Academy very seriously. The Academy is implementing provisions included in both the Fiscal Year 2017 and Fiscal Year 2018 National Defense Authorization Act aimed at improving the Academy's sexual assault and sexual harassment prevention and response efforts. Actions include enhancing prevention training, increasing campus security, initiating an on-campus culture change program, hiring additional staff for the Sexual Assault Prevention and Response Office, and most recently, testing satellite communication devices that will be made available to midshipmen going on Sea Year and upgrading the 24/7 sexual assault hotline.

State Maritime Academies

In addition to providing oversight of the USMMA, MARAD provides assistance, including training ships, to six state maritime academies (SMAs), which collectively graduate more than two-thirds of the entry-level Merchant Marine officers annually. ¹⁴ Approximately 991 Cadets are expected to graduate from the SMAs in 2018.

MARAD provides assistance to fund the enrollment of 75 new cadets each year (across all SMAs) in the Student Incentive Payment (SIP) program for a period of four years. The SIP program provides cadets with funds to be used for uniforms, tuition, books, and subsistence. Upon graduation, SIP students must maintain an unlimited USCG credential for six years, fulfill a three-year service obligation in the maritime industry, and serve in a reserve unit of an Armed Forces or uniformed service for eight years. Assistance provided to the SMAs also includes funding for maintenance and repair costs for training ships on loan from MARAD.

Ensuring the continued availability of SMA training vessels is a critical need and high MARAD priority. Training ship maintenance work is increasingly important and costly as the ships age and approach or exceed their designed service life. Accordingly, MARAD is using funds to address priority maintenance across all the training vessels, with emphasis on the two ships which are more than 50 years old – the EMPIRE STATE (NY) and KENNEDY (MA). These two vessels are now serving beyond their designed service lives. The SMA Cadets receive most of their sea time on these training ships.

¹⁴ The six SMAs are: California Maritime Academy in Vallejo, CA; Great Lakes Maritime Academy in Traverse City, MI; Texas A&M Maritime Academy in Galveston, TX; Maine Maritime Academy in Castine, ME; Massachusetts Maritime Academy in Buzzards Bay, MA; and State University of New York (SUNY) Maritime College in the Bronx, NY. See: 46 U.S.C. Chapter 515.

MARITIME TRANSPORTATION INFRASTRUCTURE

Ports and the U.S. Marine Transportation System are critical to our Nation's economy and to the wellbeing of the U.S. Merchant Marine. As required by 46 U.S.C. § 50302, MARAD established a port infrastructure development program called StrongPorts to better support the development of our port facilities. That program delivers tools and technical assistance to ports and works with state and local partners to integrate ports and maritime transportation into the larger U.S. surface transportation system. MARAD also oversees funding for port infrastructure projects provided through the DOT grant programs.

The America's Marine Highway Program (AMHP) is designed to expand the use of our Nation's navigable waterways to relieve landside congestion, reduce air emissions, provide new transportation options, and generate other public benefits by increasing the efficiency of the surface transportation system. There are currently 24 designated Marine Highway Routes.

The program encourages partnerships with a variety of stakeholders including shippers and manufacturers, truckers, ports and terminals, ocean carriers, and domestic vessel operators to create new supply chain options that use our waterways. America's Marine Highway projects also allow for the optimization of equipment relocation and help to reduce wasteful movement of empty shipping containers.

CONCLUSION

At MARAD, we strive to serve the American people and uphold their right to a government that prioritizes their security, their prosperity, and their interests. MARAD implements programs that promote the economic competitiveness, efficiency, safety and productivity of the U.S. maritime transportation system while ensuring that sealift capability and capacity is available to support the national and economic security needs of the Nation.

I appreciate the Subcommittee's continuing support for maritime programs and I look forward to working with you on advancing the U.S. Maritime Industry in the United States. I will be happy to respond to any questions you and the members of the Subcommittee may have.

"The State of the U.S. Flag Maritime Industry" Subcommittee on Coast Guard and Maritime Transportation Hearing

Wednesday, January 17, 2018, 10:00 a.m.

Washington, D.C.

RADM Mark H. Buzby, U.S. Navy (Ret.), Administrator, MARAD, Responses to Questions for the Record

Submitted on behalf of Congressman John Garamendi (CA-03)

Press reports indicate that Russia has recently enacted its own version of a "Jones Act" cargo preference regime regarding the marine transportation of petroleum and other energy products along the 4,000 miles of the Northern Sea Route in the Arctic. Such shipments of Russian energy resources will now be carried as of February 1, 2018 on Russian-flagged ships.

1. Now that the United States has become a net exporter of LNG and crude oil, would it not be prudent for the United States to ensure that at least a portion of its own energy exports are carried on U.S. flagged ships to preserve our Nation's ability to maintain an adequate merchant marine in the interest of national security?

Response:

To be clear, a requirement for LNG to be exported on U.S.-flag vessels without U.S. Government involvement in purchase of such cargo is a matter of trade policy, not cargo preference. Currently, the U.S. exports very little LNG and crude oil on U.S.-flag vessels due largely to the lack of available vessels, thereby creating a reliance on foreign shipping. Any proposal that would increase the amount of cargoes to be carried on U.S.-flag international trading vessels could increase the numbers of vessels and mariners needed to carry those cargoes. However, modifying trade policy to impose new requirements on private sector transactions would have legal and regulatory hurdles that would need to be analyzed, including our existing international treaty obligations and our Free Trade Agreements. The Administration would also have to consider the degree to which this proposal would be consistent with its economic and energy independence goals.

2. Based on your experience as a former military commander, what is the potential impact if the United States does not seek out a more comprehensive Cargo Preference regime for energy and other exports?

Response:

Any available cargo is essential to ensuring the economic viability of the U.S.-flag internationally-trading fleet. The size of the U.S.-flag internationally-trading fleet today is at its lowest point in history, and to incentivize carriers to bring more vessels into the fleet, it is essential that U.S.-flag carriers have access to enough cargo to make their operations

economically viable, given the competitiveness of the global shipping market. Therefore, we cannot maintain the viability of the American fleet and its mariner workforce without sufficient Government support to employ the vessels. Absent support through other means, any further reductions in the availability of preference cargoes would likely result in the loss of additional vessels. Military cargos will likely continue to be the significant source of preference cargoes, but those cargoes have also declined as the wars in Iraq and Afghanistan have ended.

Existing cargo preference requirements stipulate that privately-owned U.S. flag commercial vessels transport a percentage of U.S. government-impelled cargoes. Government-impelled cargoes are not limited solely to those shipped directly by a Department or Agency, but include government-financed projects and government contracts issued to private companies. In the National Defense Authorization Act of 2008 (2008 NDAA, P.L. 110-417, §3511) Congress directed the Maritime Administration (MARAD) to promulgate regulations to strengthen its enforcement of cargo preference requirements. Since then, MARAD has been unable to clear a proposed rule through the Office of Management and Budget.

3. Does the Department of Transportation intend to reinitiate a rulemaking to improve cargo preference enforcement as required under the 2008 NDAA?

Response: MARAD continues to engage in interagency deliberations with other Government stakeholders to develop a sustainable cargo preference regime., The Administration is considering all cargo preference enforcement options.

4. Does the administration support stronger enforcement of cargo preference requirements?

Response: This Administration is considering cargo preference enforcement options as well as other potential options to strengthen the viability of the U.S.-flag fleet through increased commercial viability.

5. What actions are you taking with other federal agencies, especially the United State Agency for International Development and the United States Department of Agriculture to ensure compliance with cargo preference requirements? For instance, does MARAD collect all detailed bills of lading on all cargoes subject to cargo preference?

Response: The cargo preference law requires civilian agencies to meet cargo preference requirements to use U.S.-flag vessels when it is consistent with U.S. law to do so. We work with Federal agencies that engage in international shipping to ensure awareness of, and compliance with, cargo preference requirements. MARAD has long-standing working relationships with USAID and USDA and engages in near-daily positive communications with their transportation staffs. This engagement is furthered by the relative maturity of their programs as participants in the cargo preference system and the nature of their contracting methods. USAID and USDA's systems for public freight tendering of all food aid shipments that originate in the United States or from their preposition warehouses, and their systems for publishing freight awards, allow for transparent monitoring of cargo preference compliance. Further, MARAD collects all bills of lading for USAID and USDA food aid cargoes, allowing MARAD to ensure that they properly comply with the cargo preference

requirements. Moreover, this frequent engagement allows MARAD, USAID, and USDA to work together when challenges or questions arise.

MARAD's ability to monitor cargo preference compliance at other Federal agencies is more uneven than with USAID and USDA because each agency internally monitors and implements cargo preference differently, and accordingly reporting across federal agencies lacks consistency. As ocean transportation is often a small subcomponent of far broader Federal financing activity, contract, or grant, often the actual supplier of the materials is unaware of the cargo preference requirement—or that the commodity itself is sourced for a Federally-impelled project. Education and awareness are key factors in this regard. Once contracting and grant agreement officers become aware of cargo preference requirements, they are far more likely to enforce it under their own awards.

6. Would the U.S. flag benefit by including some percentage of the U.S. oil and gas export trade under cargo preference?

Response: The question is understood to ask what effect applying a U.S.-flag requirement on the carriage of privately exported oil and gas, as distinguished from cargo preference applicable to Government-impelled cargoes, would have. As described in our response to question 1, increasing the percentage of the U.S. oil and gas export trade conducted on U.S.-flag vessels could have several benefits for the U.S.-flag fleet. However, we would have to consider if a change in this policy might conflict with current treaty obligations and the cost versus benefit of imposing such a requirement on the private sector. It would also be prudent to examine the degree to which this policy measure might affect the market for American energy exports that rely on maritime transport. MARAD would be happy to work with other interested Federal agencies and the Congress to consider new strategies to foster, promote and develop the U.S. maritime industry.

7. Do you agree with a recommendation suggested by another witness that MARAD should submit periodic reports to Congress detailing MARAD's efforts and activities to ensure compliance with cargo preference laws?

Response: MARAD has previously published cargo preference compliance information though an annual report to Congress, and we believe that our work in this area should be transparent. Our recent annual reports include the share of tonnage agencies ship on U.S.-flag vessels, though their compliance levels may actually be higher given determinations of non-availability. We would welcome the opportunity to work with the Committee and the shipping agencies to develop a framework for provision of cargo preference compliance information, including a balanced analysis of the impact of cargo preference to the U.S. Government as a whole, should the Committee desire specific information.

In 2014, Congress directed the Secretary of Transportation to develop a National Maritime Strategy and to transmit that strategy to the Congress one year after date of enactment. The due date for forwarding this strategy has long since passed but the congressional directive remains in effect.

8. Can we expect to see the Department of Transportation complete a National Maritime Strategy and the administration forward this strategy to the Congress?

Response: MARAD has had time to review the strategy and ensure that its elements align with the current Administration's goals and priorities. We expect to begin the clearance process in the coming weeks and to submit this strategy to Congress in the near future.

Despite the repeal of certain financial tools such as operational differential subsidies and mail subsidies, MARAD still has at its disposal certain maritime financial assistance programs such as the Title XI Maritime Loan Guarantee Program, the Capital Construction Fund allowance, and the Small Shipyard Grant Program. These programs help either offset the costs of operating under the U.S. flag or the competitive price differential to build vessels in U.S. shipyards.

9. In November 2017, we had discussed briefly the potential use of MARAD's Title XI authority to fund a "lease/purchase" program to recapitalize the Ready Reserve Fleet. Has there been further development of this concept? Are additional details available?

Response

After you asked me about the potential of using the Title XI loan guarantee program to recapitalize the Ready Reserve Force (RRF), I asked my staff to begin investigating the legality and feasibility of doing so. I also told them to investigate any other innovative means for funding recapitalization that might be available to us.

The Administration has not determined whether Title XI should be part of our strategy to recapitalize the RRF; MARAD is currently developing ideas to improve the Title XI program.

Finally, I emphasize that MARAD must work hand-in-hand with the U.S. Navy when considering options to replace aging vessels in the RRF. Considering the state of the fleet, we will consider all options from any source that will allow us to accomplish this important mission as efficiently and effectively as possible.

You failed to mention any of the several financial tools available to you as the Maritime Administrator to provide incentives or cushion the risks of private sector capital investment in building new vessels or in upgrading our shipyard industrial base. Does the administration support or oppose these programs?

Response: The Administration supports efforts to incentivize investments that create jobs and boost the Nation's economy. To further such efforts, as Maritime Administrator, I am committed to MARAD's mission to foster, promote, and develop the U.S. merchant maritime industry, including our U.S. shipyards. This includes capitalizing on MARAD's existing programs and working with industry to explore all ideas for expanding shipbuilding opportunities in the United States.

TESTIMONY OF MATT WOODRUFF, VICE PRESIDENT, KIRBY CORPORATION IN HIS CAPACITY AS CHAIRMAN, AMERICAN MARITIME PARTNERSHIP

Before the Coast Guard and Maritime Transportation Subcommittee
Of the House Transportation and Infrastructure Committee
At a hearing titled, "The State of the Maritime Industry"
January 17, 2018 10 a.m.

This is my first chance to testify before Congress in my new role as chairman of the Board of Directors of the American Maritime Partnership (AMP). AMP is the largest maritime trade association in America, representing vessel owners and operators, shipbuilders and repair yards, dredging and marine construction contractors, trade associations, pro-defense groups, and more. As you know, the Jones Act is the fundamental law of the American maritime industry, and AMP's primary purpose is to educate federal decision-makers about the national, economic, and homeland security benefits of the Jones Act.

The State of the Industry

The state of our industry today is good. There are many bright spots, yet also significant causes for concern. Massive recapitalization of our industry has taken place over the past few years, including significant recapitalization in the tank vessel and offshore oilfield service fleets. That construction continues today as new dredges, deep sea containerships, and other vessels come onto the market or begin construction in the yards. At the same time, tugboats and towboats are being built across America. American shipyards continually make state-of-the-art advancements when they build vessels for domestic service. The world's first containerships capable of running on liquefied natural gas or LNG are U.S.-flag vessels now serving the Puerto Rico trade. Many of the new tankers built for the domestic market are also capable of LNG propulsion, as are new ships under construction to serve Hawaii and other markets. We have

LNG-powered vessels in our modern fleet that serves the offshore exploration and production industry. Development of these LNG-powered vessels is just one example in a long tradition of innovation in the worldwide maritime industry that began in the American domestic fleet, including the world's first containership. By definition, the domestic fleet serves the nation's domestic market; the fleet today represents the sizes, types, and number of vessels our customers need to move America's waterborne freight and perform our other maritime work safely, efficiently, and in an environmentally responsible manner.

However, the marine business tends to run in cycles. Many segments of the domestic industry are in a down cycle today and have been for some time. So as I talk about the positive aspects of our industry, we should not forget that many of our companies are having a really hard time right now. Too many of our vessels, including some of those new, state-of-the-art vessels I just talked about, are looking for work or are not generating an adequate return on the investments made to bring them to the marketplace and keep them there. Despite our challenges, and some particular challenges faced in the past year, the American domestic maritime industry continues to serve its customers well, continues to push for improved safety and efficiency, and continues to retain its place as one of the great domestic maritime industries in the world.

The Hurricanes

I mentioned particular challenges of the past year and none were more significant than the hurricanes we faced. Literally from the tip of South Texas to the rocky shores of Maine, our mariners had to ensure the safety of themselves, their vessels, and their cargoes as potentially devastating weather came their way. They rose to the challenge. They implemented their hurricane plans and prepared well, rode out the storms with remarkably little damage, and, when the rain stopped falling and the winds stopped blowing, they got back to what they do best—

moving cargo for America, dredging ports and channels impacted by the storms, and serving the offshore oil and gas industry. In many cases, the men and women of our industry put aside the need to address damage to their own homes in order to help their fellow Americans because they knew the cargo they carried represented a lifeline to impacted areas.

Florida was a case in point. Florida depends on tank vessels to deliver petroleum products and other fuels to their fuel distribution hubs. Storm preparations and evacuations greatly increase demand and deplete supplies on hand at gas stations and distribution terminals. In the case of this hurricane season in particular, this presented an enormous challenge to the state. The ports were closed during the hurricane, but when they opened – as one publication wrote – "a Jones Act armada" was waiting to resupply the state with petroleum. A Jones Act armada! Literally dozens of Jones Act vessels were waiting outside the ports to help their fellow Americans when those ports reopened.

Puerto Rico was another example. As you all know, the original narrative was that the Jones Act was impairing the recovery effort, a narrative that was proven to be patently false. Thanks to your hearing last October, public statements, and other factors, the story quickly changed and the truth came out. In reality, the Jones Act fleet was steadily delivering containers to the island, which, unfortunately, were stacking up on the terminals due to road closures and other inland infrastructure issues that resulted from the hurricane. Today, we can say without equivocation that the Jones Act fleet was and continues to be a major part of the recovery effort, which FEMA is calling "the largest sea-bridge operation of federal disaster aid in FEMA history." I want to personally thank you, other members of this Subcommittee, and your excellent staff for helping to address the misinformation and bring America the truth. Your

understanding of our industry and your willingness to set the record straight was tremendously important.

Here are some of the facts about the Puerto Rico recovery effort. Since Hurricane Maria hit the island, domestic liner carriers including Crowley, TOTE, and Trailer Bridge have delivered over 75,000 containers to the island. These containers include relief cargoes like food, clothing, water, and medicine as well as rebuilding supplies. In addition to containers, roll-on-roll-off, tank, and bulk shipments have delivered fuel, electric poles, utility trucks, tanker trucks, heavy equipment, and other cargoes. Alongside the vessels regularly serving Puerto Rico in the liner trade, domestic carriers have added nine extra vessels to the scheduled liner service in order to ensure the island is getting the increased quantities of supplies it needs in a timely manner. In addition to the regularly scheduled liner service to Puerto Rico, numerous other vessels have made special trips to the island since the storm to deliver goods needed by the people and businesses there. Finally, the Puerto Rico carriers are doing more than just delivering cargo—they are supporting the island, including using their own truck distribution networks to deliver goods; coordinating with federal and local government entities and relief organizations to improve final mile delivery; and organizing community events and donations on the island.

Because our domestic carriers have served Puerto Rico for decades, they have deep ties with the communities there and consider it their duty to help the island rebuild stronger than ever. They will be there for the long term to serve the needs of Puerto Rico. One thing we should not overlook is that some 50% of the Gross Domestic Product of Puerto Rico comes from manufacturing done on the island. The quick, efficient, and price-competitive northbound service provided by the Jones Act carriers will continue to be an advantage to Puerto Rico as it recovers.

In short, the American maritime industry's response to the hurricanes has been historic and impactful.

The Jones Act Makes America More Secure

The long-term policy foundation of the domestic maritime industry is the idea that America's domestic cargoes should be moved, and domestic maritime services provided, by American-built, American-owned, American-controlled, and American-crewed vessels. This policy is embodied today in the Merchant Marine Act of 1920, the Jones Act. Today, America's domestic maritime industry includes 40,000 vessels, helps employ nearly 500,000 Americans, and has an annual economic impact approaching \$100 billion. Within the last year, officials from the Defense Department, U.S. Transportation Command, Coast Guard, Custom and Border Protection, U.S. Trade Representative, Maritime Administration, and Department of Transportation – not to mention many members of this Congress – have spoken about the benefits of the Jones Act. For example, Maritime Administrator RADM Buzby spoke in December about the Jones Act, noting that its detractors "have little to no understanding of the national security implications to the mariner pool, the shipbuilding supply chain, and the layer of internal security that would be lost if the Jones Act were to be abolished."

The common theme of these statements is that the Jones Act makes America more secure. Or, looking at their statements in reverse, the loss of the Jones Act would make our nation more vulnerable.

If your concern is national security, the Jones Act contributes to it, whether by helping
maintain the shipyard industrial base that is vital to national security, providing a pool of
mariners who have demonstrated through the ages that they will go into harm's way to

support America's interests and defense, or through using commercial vessels for military cargoes.

- If you worry about homeland security, you can sleep better knowing that the vessels
 plying our inland waters, often carrying dangerous cargoes, are manned by securityscreened Americans, who care about keeping your home safe and secure, because they
 are your neighbors.
- If you care about economic security, you are glad to know that the vessels that keep vital goods moving between American cities and energy flowing will not disappear overnight because of a decision by a foreign power. You know the industry provides well-paying, family wage jobs that allow Americans to climb the ladder of economic security. You know that we cannot have energy independence or dominance if we have to depend on foreign interests to get our domestic energy out of the ground and to its markets in America.

Military to Maritime

Because your first panel discussed military to maritime issues, I would be remiss if I did not share with you a few words about the American maritime industry's commitment to hiring veterans. In short, we love hiring veterans. In many ways, the commercial maritime industry is much like the military services, so the transition from military to maritime is often quite seamless. The American maritime industry shares the same commitment to mission, teamwork, and service. And veterans likewise resonate with the national and homeland security tenants of our industry.

AMP has run a series of programs over the years to encourage the hiring of veterans in our industry. That includes job fairs, including one in San Diego, Mr. Chairman. We will soon

be unveiling a number of programs to go even further in our quest to hire veterans. When we have jobs to offer, we would love them to be filled with veterans. Most importantly, AMP has a new Military to Maritime website, which is a central location where applicants can go to receive information on jobs in the maritime industry. The website hosts a job platform that showcases a variety of maritime-related careers. The website also includes career resources and information about licensing requirements for various jobs in the industry. The Maritime Administration and other government agencies are eager to both use this website as a platform for educating applicants and to partner with AMP members to spread the word about jobs in the maritime industry.

Conclusion

Thank you for the opportunity to testify today. More than anything, we are grateful that the members of this Subcommittee have taken the time and energy to really learn how our industry works and to understand its contributions to America's security and economic prosperity. Never was that understanding so important than during the recent hurricanes when the airwaves were filled with so much misinformation. You helped correct the record, and we are grateful for that.

The American Maritime Partnership stands ready to be a resource to this committee as it addresses issues related to the domestic maritime industry. I would be happy to answer any questions any of you might have, now or in the future.

STATEMENT OF ERIC P. EBELING

PRESIDENT & CEO

AMERICAN ROLL-ON ROLL-OFF CARRIER GROUP

ON BEHALF OF USA MARITIME

BEFORE THE

U.S. HOUSE OF REPRESENTATIVES

TRANSPORTATION & INFRASTRUCTURE COMMITTEE COAST GUARD & MARITIME TRANSPORTATION SUBCOMMITTEE

JANUARY 17, 2018

Introduction

Good morning Chairman Hunter, Ranking Member Garamendi, and members of the Committee. Thank you for the opportunity to appear before you today to discuss the state of the U.S.-flag international fleet.

My name is Eric Ebeling and I am testifying today on behalf of USA Maritime, a coalition consisting of American vessel owners and operators, trade associations, and maritime labor. USA Maritime is committed to ensuring that the U.S. Merchant Marine will always be available to support our warfighters, enhance our economy through trade, and provide great jobs to tens of thousands of Americans across the country. In peace and war, the United States Merchant Marine has always answered America's call.

As the President and CEO of American Roll-On Roll-Off Carrier Group (ARC), a New Jersey-headquartered company, it is my honor to lead an incredibly talented team of men and women at the largest U.S.-flag Ro-Ro operator, and the third largest U.S.-flag international carrier overall. We own and operate eight roll-on roll-off (Ro-Ro) vessels in international trade, all of which are enrolled in the Maritime Security Program (MSP). ARC's trans-Atlantic liner service has carried the preponderance of U.S. military vehicles and other government rolling stock cargoes in the U.S.-Europe trade since 1990, and ARC was the first U.S.-flag Ro-Ro carrier to offer liner service in support of Operations Enduring Freedom (OEF) and Iraq Freedom (OIF).

ARC Group is committed to investing in the U.S.-flag fleet and U.S. Merchant Marine, and to operating the most militarily-useful and economically viable ships to support our armed forces around the world. Our newest ships, M/V PATRIOT and M/V LIBERTY, joined the fleet in 2016 and 2017 respectively. ARC's M/V ENDURANCE is the largest Ro-Ro ship in the U.S.-flag commercial fleet, and the four most militarily-useful Ro-Ro ships in the MSP are owned and operated by ARC Group. All our vessels are crewed by American mariners and fly the American flag.

The U.S.-flag fleet has been at a crossroads in recent years. Declining cargoes resulted in a shrinking fleet, which led to a shortage of qualified mariners, and these factors in turn impacted national defense readiness in terms of scalift and logistics support available to support the needs of the Department of Defense. Congress has passed smart new maritime policies in recent years, and the fleet has now started to stabilize. We have knowledgeable and supportive leaders at both the Department of Transportation in Secretary Elaine Chao, and the Maritime Administration in Administrator Mark "Buz" Buzby. We also have had steadfast leadership and support from U.S. Transportation Command and its commander General Darren McDew. Carriers have started to recapitalize their fleets, and good jobs have followed.

My goal today is to provide some background on the current state of the U.S.-flag international fleet, context on recent challenges, and recommendations to further stabilize and grow the fleet.

Importance of the U.S-flag Fleet to National Security

It is no coincidence that the historical highpoints for the U.S.-flag international shipping industry have occurred in the years following World War II, during and immediately after both the Korean War and the Vietnam War, and most recently during OIF and OEF. Over 90% of all military equipment is shipped overseas by sea because of the scale and scope of the cargo, and the cost efficiency of moving it by sea versus air, with the preponderance of it shipped via the U.S.-flag international fleet.

The commitment U.S. carriers make to the national security of the U.S., through programs like MSP and iron-clad contracts like the Voluntary Intermodal Sealift Agreement (VISA), and the global shipping,

intermodal, and logistics services U.S. carriers provide to the Department of Defense are a clear best value buy for the taxpayer. As defined by the Maritime Administration (MARAD), VISA "provides commercial sealift for a seamless, time-phased transition from peacetime to wartime operations". It is well documented that the U.S. Government does not have a sufficient organic fleet, nor the intermodal and logistics capabilities, to do the job entirely on its own. As Gen. Darren McDew noted in his 2017 USTRANSCOM posture statement, "Assured access provided via the Voluntary Intermodal Scalift Agreement ultimately ensures the U.S. maintains its capability to meet sealift requirements in peace, crisis, or war."

Particularly when viewed against the requirements of operating an integrated global network of ships, marine terminals, intermodal services, information systems, and logistics services, the U.S. Government would be unable to effectively duplicate the global network and logistics footprint available to it through the MSP. Studies have shown that it would cost the U.S. Government tens of billions of dollars to obtain the total shipping and logistics capability comparable to that offered by the MSP-enrolled U.S.-flag international carriers.

Hence the positive case for the Department of Defense to utilize the commercial fleet as the best value to the taxpayer for sealift. But it's not just sealift. The conflict in Afghanistan encompassed unique logistical challenges for military planners due to the country's landlocked borders and exceedingly difficult operating terrain. Alongside our partners from USTRANSCOM, U.S.-flag carriers created a network of solutions in support of OEF including the Pakistan ground lines of communication (PAK GLOC), the Northern Distribution Network (NDN), and innovative sea-air multimodal options. We have a great Industry/Government/Labor partnership with clear and significant mutual benefit, and we must maintain it, or risk losing the ability to deploy and sustain such asymmetrical logistics advantages.

Challenges & Opportunities: MSP and the Cargo Preference Laws

According to MARAD, there are currently 82 (non-Jones Act) U.S.-flag international fleet vessels. Over the last five years, the U.S.-flag international fleet has decreased by about 25%. The decline can be attributed to two major factors: a dramatic decrease in government cargoes for which U.S.-flag carriers compete; and rising costs of the U.S.-flag fleet compared to international registries. Not only do U.S.-flag carriers in international trade compete in a hypercompetitive global marketplace, but we are also uniquely sensitive to the ebb and flow of Government policy-making, which, when translated to an economic impact on the U.S.-flag carriers can destabilize, support, or even turbocharge investment in the U.S.-flag fleet.

The Maritime Security Program is a proven national security program enacted to ensure that the United States has the U.S.-flag sealift capability and trained American citizen merchant mariners it needs in time of war or other international emergency. It is one of the most cost-effective defense-related private industry and government partnerships. At the ship-naming ceremony for ARC's M/V LIBERTY in June 2017, Department of Transportation Secretary Elaine Chao called MSP a "model public-private partnership". The program ensures that we will in fact be able to support our troops overseas by guaranteeing that U.S.-flag vessels and U.S. citizen crews are available to transport the supplies and equipment our troops need.

MSP is an incredibly well conceived program and has been an outstanding success. The relationship between commercial industry, maritime labor, the Maritime Administration and the Department of Defense has solidified into a true partnership. The initial program for 47 ships established in 1996 was expanded to the current 60 ships upon reauthorization in 2005. At a cost of \$300M as currently authorized, the program is an exceptional value for DOD and the taxpayer.

The program is authorized until 2025 and it is critical that it is extended significantly beyond 2025 as soon as possible. Participating companies must finance the purchase of replacement tonnage, a 30-year asset that may cost up to \$80-100 million (not including containers and other equipment), based on a program that expires in about seven years, and is subject to the annual appropriations process. This could be considered akin to going to your local bank with a proposal to buy a home with a 30-year mortgage knowing that you only have one year of income. Carriers have collectively invested billions of dollars, but for this investment to continue, or increase, continued stable funding is vital, and the program must be extended, or simply made permanent.

The MSP is a critical component to ensure the continued existence of a U.S.-flag fleet, but it is only one element in a larger statutory and legislative framework that supports the viability of the U.S.-flag fleet. Cargo preference is the reservation, by law, for transportation on U.S.-flag vessels of all, or a portion of all, ocean-borne cargo which moves in international trade, either as a direct result of the Federal Government's involvement, or indirectly because of the financial sponsorship of a Federal program or guarantee provided by the Federal Government. Preference cargoes are the key incentive for U.S.-flag carriers operating in international trade to remain under U.S. registry and are part of Congress' long-established intent to support the privately-owned and operated U.S.-flag fleet and merchant marine.

Smart and effective management by the U.S. Maritime Administration, and full cooperation of the shipper agencies such as the Department of Defense, Export-Import Bank, USAID, and other Government shipping agencies is critically important to the U.S. international fleet, and to the survival of the U.S. Merchant Marine, which provides the loyal, competent, well-trained mariners for our vessels. It is a rather simple equation. Without cargo, carriers will not invest in ships, and without ships, there will not be jobs for merchant mariners. Without those merchant mariners, the Government-owned reserve fleet cannot be crewed.

Unfortunately, due to dramatic declines in military cargoes due to the changing overseas footprint maintained by America's armed forces (an 80% reduction since 1990), the lack of a fully functioning U.S. Export-Import (Ex-Im) Bank, and drastic reductions in USAID and other food aid cargoes, U.S.-flag international carriers have faced a relentless decline in the amount of available government preference cargoes. To that end, we offer three suggestions.

First, Congress passed legislation in 2008 to give MARAD stronger cargo preference enforcement tools. Unfortunately, the previous Administration did not implement them. Congress should work with the Administration to ensure faithful implementation and execution of these laws.

Second, under America's cargo preference laws, 100% of all military cargoes and at least half of all civilian agency cargoes must be shipped on U.S.-flag vessels. This has been the official policy of the Federal Government since at least 1904, and it has long been a cornerstone of American national defense. Why not require 100% of all government-owned or financed cargoes to move on U.S.-flag ships?

Lastly, Ex-Im Bank, the national export credit agency (ECA) of the United States, needs a board quorum that can approve new projects. There are at least 25 countries that require support from an export credit agency before they will even consider a bid from an international company, and there are over 80 ECAs offering such financing. Such ECAs collectively exceed the size of the entire World Bank Group and fund more private-sector projects in the developing world than any other class of finance institution. Without an Ex-Im Bank, America has, at least in part, effectively unilaterally disarmed, and while most of the impact has been felt by the American manufacturing base and workforce, there has been an attendant impact to national

security in the form of a reduced U.S.-flag fleet and reduced mariner manpower pool. A fully-functioning Ex-Im Bank will help support the U.S.-flag fleet.

"The Nation is Going to Come Calling"

In a theoretical free enterprise economic model, and absent DOD cargoes, other preference cargoes, and the MSP, there would be no American citizen crews and no U.S.-flag international carriers. Today, as a result of the commitment of the Department of Defense to the utilization of the U.S.-flag commercial fleet and the support of the Maritime Security Program, the U.S.-flag fleet in international trade is stable.

But U.S.-flag shipping will remain dependent for its survival on smart legislation and committed long-term maritime policies. And in the next few years, the U.S.-flag international shipping industry will again face critical challenges. It is important to understand the reasons underlying the relative success of the U.S.-flag international fleet, or lack thereof as the case sometimes may be, as absent such an understanding, we risk the further decline or disappearance of an active U.S.-flag fleet operating in international commerce, and all the benefits that attach to it. We must recognize those facts and reality, and maintain an MSP program and other smart maritime policies.

As USTRANSCOM commander Gen. Darren McDew noted in an October 2017 speech, "We don't know when, but someday the nation is going to come calling. When she does, she will need us, she will need our ships, she will need our mariners... if we do nothing now, the strength of the maritime fleet that brought the nation to war throughout history... that strength will not be here. It's already in decline." It is incumbent on all of us as Americans to stay that decline and ensure that this crown jewel capability continues to be available to USTRANSCOM, and the nation.

Thank you for the opportunity to offer my views on the critical factors pertinent to maintaining a strong U.S.-flag international fleet. I look forward to your questions.



Testimony of Aaron C. Smith, President and CEO of the Offshore Marine Service Association

Prepared for:

The U.S. House Committee on Transportation and Infrastructure Subcommittee on the Coast Guard and Maritime Transportation

And the Hearing on:

The State of the U.S. Flag Maritime Industry

January 17, 2018

Chairman Hunter, Ranking Member Garamendi, and Members of the Subcommittee, thank you for allowing me to speak at this important hearing. My name is Aaron Smith, and I have the pleasure of serving as the President and CEO of the Offshore Marine Service Association (OMSA).

OMSA is a strong supporter of the Jones Act because of its national, homeland, and economic security benefits.

364 days ago, Customs and Border Protection (CBP) took an important step to correct decades of inadequate enforcement of the Jones Act. Unfortunately, for misguided reasons, the Trump Administration halted that effort on May 10, 2017. As such, OMSA urges Congress and the Administration to improve the enforcement of this quintessentially "Buy American, Hire American" Act.

Who We Are.

OMSA is the association for the domestic offshore marine transportation service industry. Many of our members own and operate U.S.-flag vessels engaged in constructing, maintaining, and servicing oil and gas infrastructure on the Outer Continental Shelf (OCS). In addition to this work, some OMSA members also lease their vessels to or operate vessels on behalf of numerous Federal agencies, including but not limited to the National Oceanographic and Atmospheric Administration (NOAA) and the U.S. Navy's Military Sealift Command (MSC).

OMSA's members also include many shipyards that construct, maintain, repair, and modernize both privately and government-owned U.S. fleets. In addition, we represent associated suppliers and allied companies that provide supplies, services, and training to these vessel operators and shipyards.

In total, OMSA represents approximately 170 companies and their approximately 12,000 employees. While these companies and employees are primarily based in the Gulf Coast, OMSA member employees can be found in every state in the nation.

We represent large publicly traded companies and small family-owned businesses. Some of our members have dozens and hundreds of vessels while others operate only one or two. In fact, more than half of OMSA vessel owners have a fleet of six or fewer vessels.

Those differences aside, OMSA vessel operators have one important commonality: they are all American-owned companies that employ American mariners and build vessels in U.S. shipyards.

That common bond has existed since the first days of offshore energy development. The first offshore well ever was drilled 11 miles off the coast of Louisiana in approximately 18 feet of water.

At that time, we utilized out-of-work shrimping boats and mothballed WWII vessels to take the men and materials out to the first oil platforms. In 1955, the first vessel specifically built to supply materials to offshore energy operations was constructed about four miles from Bourbon Street. That vessel, the EBB TIDE, was approximately 115 feet long and 97 tons. However, its design set the standard which has now been replicated around the globe.

The Benefits Provided by the Offshore Service Industry.

Today, offshore energy production has moved from 11 miles to 100 miles from shore and from 18 feet of water to 10,000 feet of water. As a result, the vessels owned and constructed by OMSA members have gotten bigger, more expensive, and more complex.

The largest vessels in the fleets of OMSA members are now 400 feet long, have cranes that can lift hundreds of tons through thousands of feet of water and specialized systems that can hold the vessel's position within a meter in rough weather.

As these vessels have grown and matured so have the U.S. shippards that build for this market. In turn, these shippards have improved their ability to construct state-of-the-art vessels for the Jones Act market, the U.S. Navy, U.S. Coast Guard, and other government agencies.

In addition to supporting our industrial base, OMSA members support our maritime labor force. OMSA members employ thousands of competent and safe mariners who must hold a valid U.S. Coast Guard mariner license or certification.

Again, as the size and complexity of vessels have grown, so have the required licenses. In the past, offshore supply vessels only required limited tonnage licenses of 500-1,600 gross tons. Today, the largest of the vessels in OMSA member fleets require their mariners to have unlimited tonnage licenses.

With steady work for a new class of vessels called Multi-Purpose Support Vessels (MPSVs) OMSA members would create 1,000 new unlimited tonnage mariners. This is important not only for our industry but for the nation because an unlimited tonnage license is required to serve as a mariner on a Ready Reserve Force vessel.

As this Subcommittee knows, the Ready Reserve Force (RRF) is charged with providing rapid worldwide deployment of U.S. military forces. The 46 government-owned RRF ships are expected to be fully operational within five to 10 days.

Most RRF ships have maintenance crews of about 10 mariners that are supplemented by commercial mariners during the vessel's activation. One or more RRF vessels are activated, on average, 27 times per year. RRF ships, when activated, require 17 to 62 mariners, meaning the full fleet activation requires 1,605 mariners (plus relief crew personnel if the activation exceeds 90-days).

As such, if we are able to find steady work for the U.S.-built, U.S.-owned, and U.S.-crewed MPSVs, we can satisfy almost half of the mariners required for the RRF. Without OMSA's member fleet, it is not realistic to believe 1,600 mariners with the required USCG-issued credentials would be currently employed and would be available when called. The supply of mariners is approximately equal to the current full-time work available. As such, if the U.S. wants to staff the RRF, we need to constantly be seeking ways to create and employ unlimited tonnage mariners.

These technological and human capital benefits are evidence that the Jones Act working as intended by Congress as expressed in 46 U.S.C. § 50101(a), which states it "is necessary for the national defense and the development of the domestic and foreign commerce of the United States" to "have a merchant marine." Specifically, one "composed of the best-equipped, safest, and most suitable types of vessels constructed in the United States and manned with trained and efficient citizen personnel."

State of the Domestic Offshore Service Industry.

Despite the above-listed benefits, the state of the domestic offshore service industry is perilous; the deep and prolonged downturn in the global energy markets has caused the suspension, delay, or cancelation of many offshore energy production and exploration projects.

As a result, more than half of the OMSA-member fleet has been tied up. If we look at anchor handlers and offshore supply vessels (OSVs) as two types of vessels, we see that according to IHS Markit data, of the total 411 vessels, 248 are out of work. Those vessels that are working are yielding day rates that probably don't even cover operation costs. Again, if we look at the IHS Markit data as an example, we see that one class of vessels that yielded a day rates as high as \$40,000 in 2012 now earn a day rate of only \$9,500 to \$15,000 per day.

We understand these forces are a result of working in a cyclical industry and know the downturn will make for a stronger industry in the end.

Lack of Jones Act Enforcement.

The challenges that my members cannot understand is why the government fails to follow the straightforward requirements of the Jones Act. More than the market downturn, this failure to enforce the Jones Act undercuts our industry. Specifically, for the last three decades, the Federal Government has allowed foreign vessels to do work the Jones Act reserves for U.S.-flagged vessels. This allowance benefits foreign companies, foreign ships, and foreign mariners to the detriment of OMSA vessel owners, shipyards, the industrial base that supports our shipyards, U.S. mariners, and (in turn) our nation's ability to provide for our national and homeland security.

As members of the subcommittee know, under the Jones Act "a vessel may not provide any part of the transportation of merchandise . . . unless the vessel" "is wholly owned by citizens of the United States for purposes of engaging in the coastwise trade" and has been built in the U.S. 46 U.S.C. § 55102(b).

Also important, the Outer Continental Shelf Lands Act ("OCSLA") establishes that the subsoil and seabed of the Outer Continental Shelf (OCS) must be treated as "points in the United States" for Jones Act purposes:

The Constitution and laws and civil and political jurisdiction of the United States are extended to the subsoil and seabed of the outer Continental Shelf and to all artificial islands, and all installations and other devices permanently or temporarily attached to the seabed, which may be erected thereon for the purpose of exploring for, developing, or producing resources therefrom, or any such installation or other device (other than a ship or vessel) for the purpose of transporting such resources, to the same extent as if the outer Continental Shelf were an area of exclusive Federal jurisdiction located within a State (43 U.S.C. § 1333(a)(1)).

In sum, the Jones Act, combined with the OCSLA, makes the subsoil and seabed of the OCS, as well as installations permanently or temporarily attached to the seabed, coastwise points under the Jones Act. As such, foreign vessels are legally prohibited from picking up cargo at U.S. ports and transporting that cargo to topside or underwater points on the U.S. OCS.

Unfortunately, CBP confused and degraded that clear standard by issuing interpretations of the Jones Act that are directly contrary to the Jones Act's text, structure, and purpose.

Specifically, between 1976 and 2009, CBP issued several letter rulings which allowed foreign flag vessels to transport offshore energy cargos (called "merchandise" under the Jones Act) from U.S. ports to locations on the U.S. OCS. These letter rulings are CBP's responses to private correspondence. They were issued without any notice or comment before their publication; in fact, the CBP Letter Rulings were not even easily available until the formation of the Customs Reporting Search System (CROSS).

Without any basis in law, CBP's letter rulings have green lit proposals by foreign vessel operators to transport merchandise to and from U.S. points on the OCS, using foreign labor on foreign ships that often pay little or no U.S. taxes. In doing so, CBP has diverted business away from U.S. companies, the shipyards that build them, and the mariners and other personnel responsible for their operation.

Specifically, the problem started in Letter Ruling HQ 101925 (also known as T.D. 78-387 Oct. 7, 1976). In this letter, CBP permitted the foreign-built vessel to transport pipeline connectors, pipe and repair materials, wellhead equipment, and other materials from the U.S. mainland to a point on the OCS. CBP has applied—and extended—the flawed reasoning of that letter ruling dozens of times.

Furthermore, CBP has issued letter rulings that improperly narrow the definition of "merchandise" that must be transported by Jones Act qualified vessels. By its plain language, the Jones Act applies to the transportation of "merchandise," and defines that term with broad, sweeping language in 46 U.S.C. § 55102(b), and specifically

including "valueless material." Despite this binding law by Congress, CBP has mis-interpreted "merchandise" in an unlawfully narrow fashion, labeling as "vessel equipment" exempt from the Jones Act large categories of articles, such as oilfield equipment, that are transported by a vessel from a port and installed on the OCS. This interpretation is not only contrary to law, but also to CBP's own long-standing interpretation of the term "vessel equipment." Specifically, T.D. 49815(4) issued in 1939 sets forth this interpretation:

The term 'equipment,' as used in section 309, as amended, includes portable articles necessary and appropriate for the navigation, operation or maintenance of the vessel and for the comfort and safety of the persons on board. It does not comprehend consumable supplies either for the vessel and its appurtenances or for the passengers and the crew. The following articles, for example, have been held to constitute equipment: rope, sail, table linens, bedding, china, table silverware, cutlery, bolts and nuts.

Cargo that is taken from a port and left on the sea floor is not "necessary and appropriate for the navigation, operation, or maintenance of the vessel" and is not helping "the comfort and safety of persons on board." Despite that fact, CBP used this overly broad definition in no less than a dozen letter rulings, all of which give foreign vessels CBP's blessing to take cargo from one location and leave it in another location.

2009 Revocation Effort.

CBP realized its errors and in 2009 issued a notice that it intended to revoke many of these flawed letter rulings. That notice was very candid when it admitted that the agency had not been following the law:

CBP recognizes that allowing a foreign-flagged vessel to transport articles that are not needed to navigate, operate, or maintain that vessel or for the safety and comfort of the persons on board that vessel, but rather to accomplish a[n] activity for which that vessel would be engaged, would be contrary to the legislative intent of [the Jones Act] (Proposed Modification and Revocation of Ruling Letters Relating to the Customs Position on the Application of the Jones Act to the Transportation of Certain Merchandise and Equipment between Coastwise Points, 43 Cust. B. & Dec. No. 28, at 61 (July 17, 2009)) (2009 Notice).

The Notice also stated:

CBP recognizes that allowing foreign-flagged vessels to transport merchandise from one U.S. point and install that merchandise at another point on the OCS on the condition that it merely be accomplished 'on or from that vessel' would be contrary to the legislative intent of [the Jones Act] (2009 Notice).

CBP failed, however, to revoke the unlawful letter rulings. On September 15, 2009, at the urging of foreign vessel owners and charterers of vessels who were benefiting from CBP's unlawful opinions, CBP withdrew its proposed action at the urging of many owners and charterers of foreign vessels and announced that a "new notice ... will be published in the *Customs Bulletin* in the near future."

In addition to promising additional actions "in the near future," CBP did not reverse its determination that its letter rulings were inconsistent with the Jones Act. Relying on CBP's promise to act "in the near future," OMSA members invested \$2 billion in U.S. shipyards to construct dozens of the state-of-the-art vessels required to do the work covered by the Revocation notice.

This investment not only ensured the U.S. has the newest, most capable fleet of MPSVs of any nation on the earth it also infused numerous U.S. shipyards with billions in capital.

2017 Notice of Revocation.

Finally, after eight years of investment, meetings, documenting violations, and disappointment, the "near future" came on January 18, 2017 with CBP issuing another notice of revocation. The 2017 Notice proposed the revocation or modification of 25 letter rulings which allow foreign-flagged vessels to move energy related merchandise from U.S. ports to locations on the U.S. OCS.

Like the 2009 notice, the 2017 Notice demonstrated remarkable and laudable honesty, stating that it had created wholesale exceptions to the Jones Act that were not found in the statute. It also stated that the CBP-created loopholes were not found in statute and should be withdrawn. (See "Proposed Modification and Revocation of Ruling Letters Relating to Customs Application of the Jones Act to the Transportation of Certain Merchandise and Equipment between Coastwise Points," 51 Cust. B. & Dec. No. 3, at 4 (Jan. 18, 2017)) (2017 Notice).

OMSA and numerous OMSA members submitted comments in support of the 2017 Notice. In addition to these comments, 34 U.S. Representatives—including half of the members of this Subcommittee—and 10 U.S. Senators sent letters in support of CBP's 2017 Notice.

Despite this second acknowledgement that they were not enforcing the laws that Congress had passed and the widespread support this Notice received, on May 10, CBP once again withdrew their revocation notice stating, "[b]ased on the many substantive comments [it] received," it needed "further research on the issue" and was therefore "reconsider[ing]" whether to withdraw and/or revoke the letter rulings identified in the 2017 Notice (Withdrawal of Proposed Modification and Revocation of Ruling Letters Relating to Customs Application of the Jones Act to the Transportation of Certain Merchandise and Equipment between Coastwise Points, 51 Cust. B. & Dec. No. 19, at 11 (May 10, 2017)).

In announcing the withdrawal of the 2017 Notice to congressional staff, CBP staff said:

CBP has received over 3000 comments, both in support of and in opposition to the proposed action. Many of these comments raised, among other items, opposing views about the operational impact of the proposed changes. Given the unique and broad potential implications of CBP's proposal, the Office of Management and Budget has advised that the [revocation process] is not the appropriate vehicle for this type of action. The Secretary of the U.S. Department of Homeland Security has determined that CBP should reconsider the procedural vehicle to address a topic of this operational scope, including potential rulemaking options under the Administrative Procedure Act or legislative changes. This approach will allow CBP and interagency participants to more comprehensively assess the potentially wide array of impacts of such a proposal in a fully transparent process.

These comments have been repeated by government officials before congressional committees. These comments are unfortunate because they seem to indicate that CBP's sustained acknowledgment that its letter rulings flouting the Jones Act do not matter. Further, the comments by CBP imply that the Administration is allowed to discuss and study if it wants to comply with the laws passed by Congress. This is even more alarming considering the immediate harm caused to U.S. companies and workers.

Put bluntly, the Executive Branch does not get to decide whether it will enforce a law Congress passes based upon public comment. It simply must enforce the law.

After Withdrawal of the 2017 Notice.

It is clear who benefited from the withdrawal of the notice. Foreign vessel owners and their trade associations claimed victory. One email I received from a London-based trade association for the international competitors of OMSA members called it a "fantastic result" and that everyone should "celebrate a positive result."

OMSA members were not in a celebratory mood. In fact, 12 days after CBP withdrew the 2017 Notice, one of my members lost a lucrative job to a foreign flag vessel. The job in question was work that was covered by the revocation notice. The foreign vessel that took this contract was able to do so by not complying with U.S. regulations, or with its tax and labor benefits, and was able to underbid the OMSA member by 25 percent. As previously indicated, the offshore energy market is very weak right now so every contract is vital and every contract is bid as tight as it can be. As such, the loss of this contract was a defeating blow to all OMSA members.

While OMSA members have now been waiting over a year for CBP to take action to ensure that the Jones Act will be enforced, CBP used the time differently. In the fall of 2017, CBP reversed a \$22 million OCS Jones Act penalty. We believe that this strong signal by CBP that the OCS is open to foreign Jones Act violators, was based upon ruling letters that months earlier CBP said are contrary to the text of the statute and should be reversed.

Conclusion

For all of the reasons stated above, OMSA is a strong supporter of the Jones Act. This act has proven time and again to promote U.S. national, homeland, and economic security. Despite these clear advantages, CBP has failed to enforce the Jones Act within our industry for the past 30 years. Changing these CBP interpretations will preserve and strengthen the Jones Act, thereby increasing the benefits that the Jones Act provides. Specifically, we found that carrying out CBP's 2017 Notice would create no less than 3,200 jobs. On behalf of these potential jobs and my members, I ask that Congress continue to support the Jones Act.

Thank you for the opportunity to testify before the committee on such an important matter. I look forward to your questions.

"The State of the U.S. Flag Maritime Industry" Subcommittee on Coast Guard and Maritime Transportation Hearing Wednesday, January 17, 2017, 10:00 a.m. Washington, D.C.

Questions for the Record

Submitted on behalf of Congressman David Rouzer (NC-07)

Mr. Smith, in response to Mr. Lowenthal's question regarding the \$2 billion invested in vessels built between 2009 and 2017 and specifically in response to the question, "what is the current status of these newly built or retrofitted vessels?", you answered that five to 10 foreign multipurpose supply vessels (MPSVs) are in the Gulf right now taking work away from a Jones Act qualified vessel.

1. Can you provide a list of these foreign MPSVs taking work from Jones Act qualified vessels and what work they are doing?

As vessels, by definition, are mobile assets and as MPSVs specifically come on and off charter it is difficult to provide an accurate list of foreign MPSVs operating in the U.S. Gulf of Mexico at any one time. That said, the following, foreign-owned, foreign-flagged MPSVs were observed to be working or located in U.S. on the date this response was prepared:

Vessel Name	Flag
SKANDI ACHIEVER	Bahamas
GRAND CANYON II	Panama
GLOBAL ORION	Vanuatu
NOR DA VINCI	Marshall Islands

 Can you also provide a list of the Jones Act vessels that are not being used for this work, but could be?

The following are a list of U.S.-built, U.S.-owned, and U.S.-crewed MPSVs modified or built since 2009 or currently under construction:

Vessel Name:

HARVEY SUB-SEA
HOS WARHORSE
HOS WILD HORSE
HARVEY DEEP-SEA
HARVEY INTERVENTION
KIRT CHOUEST
DOVE
HOS BAYOU
OCEAN ALLIANCE
C-INSTALLER
JOE GRIFFIN
KELLY ANN CANDIES
WYATT CANDIES
CHLOE CANDIES
GRANT CANDIES

HOS MYSTIQUE
ROSS CANDIES
SURF CHALLENGER
OCEAN INTERVENTION II
HOS RIDGEWIND
HARVEY DISCOVERY
AMC AMBASSADOR
BRANDON BORDELON
OCEAN INTERVENTION
SHELIA BORDELON
BORDELON 104

3. Additionally, which letter ruling currently allows this work to be done by foreign vessels?

This is a question better directed to the vessel operator that is conducting the work, or to CBP. OMSA believes that dozens of letter rulings issued by CBP are inconsistent with the Jones Act, and has commenced litigation against CBP to, among other things, halt reliance on these flawed letter rulings.



BEFORE THE

UNITED STATES HOUSE OF REPRESENTATIVES COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION

State of the U.S. Flag Maritime Industry

January 17, 2018

2167 Rayburn House Office Building

Testimony of:

Matthew Paxton
President
Shipbuilders Council of America
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Washington, DC 20001

On behalf of the Shipbuilders Council of America (SCA), I would like to thank Chairman Hunter, Ranking Member Garamendi, and members of the Subcommittee for the opportunity to provide testimony on the state of the U.S. Flag maritime industry. I ask that my entire testimony be submitted for the record.

I am Matthew Paxton, President of the Shipbuilders Council of America (SCA), the national trade association for the U.S. shippard industry.

The SCA represents 85 shippard facilities and 116 industry partner member companies that are part of the vital supply chain that make up the shippard industrial base.

The Jones Act is a core value promoted by the SCA. This policy, which is provided at no cost to the U.S. government, helps to maintain a merchant marine that is sufficient to carry our domestic water-borne commerce and also ensures that there is sufficient U.S. capacity to serve as a naval and military auxiliary in time of war or national emergency.

The U.S. shipyard industry is diverse and operates in several sectors including government new construction, government repair and modernization, commercial repair and modernization, and commercial new construction. According to the Maritime Administration (MARAD) there are 124 active shipyards in the United States spread across 27 states and shipyard related jobs in all 50 states. Many of SCA's member companies have diversified their waterfronts to contribute to multiple sectors and some are also utilizing their skilled workforce to contribute to non-maritime construction efforts.

From our industry's perspective, the Jones Act also ensures that the U.S. maintains critical shipyard infrastructure and an associated skilled workforce that can build, repair, modernize and maintain the more than 40,000 vessels of the domestic Jones Act fleet. This industrial base also ensures there is a sufficient workforce to support the construction and repair of our critical national security fleets.

U.S. shippards build some of the most technologically advanced vessels in the world. For example, the world's first LNG-powered containership was built in the U.S. and is now serving the Puerto Rican trade. Our shippards also build world-class offshore service vessels for oil and

gas exploration, vessels of all types for the Coast Guard, and state-of-the-art vessels for the Navy.

The maritime industry is the most economical form of domestic transportation, moving more than 1 billion tons of cargo annually at a fraction of the cost of other modes. According to the Maritime Administration, the U.S. shipbuilding industry ran a trade surplus in 6 out of 9 years between 2006 and 2014, resulting in a cumulative trade surplus of \$1.5 billion over that period.

The 355 Ship Navy and the Jones Act

In December 2016, the Navy released a new force structure assessment (FSA) that called for a fleet of 355 ships—substantially larger than the current fleet of 275 ships and also larger than the Navy's previously stated goal of 308 ships. To increase the Navy's Fleet to 355 ships, a substantial and sustained investment is required in both procurement and readiness. However, let me be clear: building and sustaining the larger required Fleet is achievable and our industry stands ready to help achieve that important national security objective.

To meet the demand for increased vessel construction while sustaining the vessels we currently have will require U.S. shipyards to expand their work forces and improve their infrastructure in varying degrees depending on ship type and ship mix – a requirement our Nation's shipyards are eager to meet. But first, in order to build these ships in as timely and affordable manner as possible, stable and robust funding is necessary to sustain those industrial capabilities which support Navy shipbuilding and ship maintenance and modernization.

In addition to stable funding the Congress and the Administration must maintain and support the Jones Act. The Jones Act ensures a commercial shipbuilding industry, supplier chain, and workforce that can support building and maintaining these Navy assets, making it a major national security benefit. It is for that reason that the U.S. Navy has always, and continues, to support the Jones Act.

The domestic shipyard industry certainly has the capability and know-how to build and maintain a 355-ship Navy and build and maintain the nearly 40,000 commercial vessels in the domestic fleet. The Maritime Administration determined in a recent study on the Economic Benefits of the U.S. Shipyard Industry that there are nearly 110,000 skilled men and women directly

employed in the Nation's private shipyards building, repairing and maintaining America's military and commercial fleets. The report found the U.S. shipbuilding industry supports nearly 400,000 total direct and indirect jobs across the country and generates \$25.1 billion in income and \$37.3 billion worth of goods and services each year. In fact, the MARAD report found that the shipyard industry creates direct and induced employment in every State and Congressional District and each job in the private shipbuilding and repairing industry supports another 2.6 jobs nationally. This data confirms the significant economic impact of this manufacturing sector, but also that the skilled workforce and industrial base exists domestically to build a larger Navy fleet and meet commercial vessel construction demands.

Strategy for Shipyard Workforce Development

Long-term, there needs to be a workforce expansion and some shipyards will need to reconfigure or expand production lines to meet demands for national security vessel construction and commercial market demands. This can and will be done as required to meet the need if adequate, stable budgets and procurement plans are established and sustained for the long-term. Funding predictability and sustainability, along with fully and consistently enforcing the Jones Act, will allow industry to invest in facilities and more effectively grow its skilled workforce. The development of that critical workforce will take time and a concerted effort in a partnership between industry, the Congress, local governments, and the federal government.

U.S. shipyards pride themselves on implementing state of the art training and apprenticeship programs to develop skilled men and women that can cut, weld, and bend steel and aluminum and who can design, build and maintain the best Navy and Coast Guard in the world, along with our domestic commercial fleet. However, the shipbuilding industry, like so many other manufacturing sectors, faces an aging workforce. Attracting and retaining the next generation shipyard worker for an industry career is critical. Working together with our Shipyard and Industry Partner Members and local and state resources, the SCA is committed to building a robust training and development pipeline for skilled shipyard workers. The continued development of a skilled shipyard workforce must be an essential element of our national maritime strategy.

^{1 (}U.S. Maritime Administration 2015)

A critical part of maintaining and growing the workforce and industrial base is the strong support of the Jones Act. The Jones Act ensures a commercial shipbuilding industry and supplier chain exists domestically which also supports Navy and Coast Guard shipbuilding and reduces costs. There is strong bipartisan support for this law, however, we must be vigilant that the law is consistently enforced and not eroded by administrative rulemaking. A recent decision by the Department of Homeland Security to not revoke a series of letter rulings that have allowed foreign-built and foreign crewed offshore supply vessels to operate in violation of the Jones Act has created uncertainty and resulted in numerous new U.S. vessel construction contracts to be cancelled. I raise this issue as an example of how a decision by an agency to not properly enforce the Jones Act can have such an adverse impact on commercial shipbuilding that reverberates throughout the entire shippard industrial base.

The U.S. Navy has always and continues to support the Jones Act because of its national security benefits. A strong commercial shipyard base and a strong cadre of skilled mariners is crucial to fulfilling the Navy's role in maintaining a forward presence in the world's sea lanes and trouble spots. In a recent study, the independent Government Accountability Office (GAO) put it this way: "the military strategy of the United States relies on the use of commercial U.S.-flag ships and crews and the availability of a shipyard industry base to support national defense needs."

As I know this subcommittee is keenly aware, we must remember a key component of the National Fleet is the United States Coast Guard. Shipyard capacity is required for the Service's desperately needed fleet modernization of its entire fleet from inland aids to navigation vessels to cutters of all sizes to icebreakers. Almost all of the shipyards that are building Coast Guard vessels also build Jones Act vessels. It is because of this law that the Coast Guard is receiving such robust competition to build its various classes of ships.

Commercial Market for Large Vessel Construction

As we look at the current state of the U.S. flag maritime industry, we need to ask ourselves "what's next." Recently, our shipyards effectively built for the increased demand in the tanker market due to the oil and natural gas boom. It is a testament to the Jones Act, that the commercial shipbuilding sector was able to rapidly meet the market demand for domestic tankers and deliver these vessels on time for the booming energy industry at that time. The U.S.

shipyard industrial base mobilized for that market demand and built state of the art tankers for that transportation sector. It was a true success for our industry.

In addition, our shipyards recently delivered numerous large ocean going containerships to recapitalize the noncontiguous fleets. Vessel construction for these important shipping routes in ongoing at several shipyards, but will be completed in the coming years. Again, it is a result of the Jones Act that we have such a capable and robust shipyard industry to build for this markets.

A common misconception however is that without large vessel construction, the U.S. shipyard industry is dormant – however nothing could be further from the truth. In 2015 our industry delivered 1,438 Jones Act vessels and 1,329 in 2016. We expect this infrastructure to continue supporting the expanded investment in marine transportation, including ferries and passenger vessels, commercial fishing fleets and the inland barge market. Recent announcements regarding the construction of 100,000-barrel ATB's again demonstrate the Jones Act is working as intended to support our domestic commercial market.

Looking towards the future, we expect there will be strong investment in marine transportation around the nation making investments in expanded ferry and passenger vessel service. We will need to be ready to build out vessels to support our maritime academies by building the next generation of training ships for our mariners. We will need to recapitalize the Ready Reserve Force (RRF) and that may require a mixture of extending the service lives of some of those vessels, building new and possibly purchasing some foreign built assets out of the Maritime Security Program. With the looming threat of political instability in multiple regions across the globe, it is imperative that the RRF is prepared for sudden dispatch, and is made up of capable assets that can meet any national security demand.

As Congress and the administration work together to construct a new transportation and infrastructure package, we want to make sure that the shipyard industry is not forgotten. The SCA would support an increase in funding for small shipyard assistance grants and sustained funding for the Title XI loan guarantee program. These initiatives are very important to shipyards and the more than 400,000 people that work in our industry.

According to MARAD's "Research, Development, and Technology Strategy" released in November of 2017, over the past several decades, hundreds of millions of dollars in federal

funding have been allocated to surface transportation innovation and research. In that same period, less than one percent of that value has been used for maritime innovation and research. In the consideration of the next generation of transportation, we ask that the Congress redouble efforts to support maritime research.

Foreign Shipyard Bailouts and Subsidies

As a closing observation it is important to highlight to this committee that U.S. shippards do not compete on a level playing field in the worldwide market. For example, last year South Korea's government injected \$2.6 billion into one of their most prominent shippards in order to keep the yard from going bankrupt.

China's government subsidies are extremely difficult to detect and measure partly because international trade agreements prohibit direct and indirect subsidies. However, we know that there is a certain extent of market manipulation based on international news reports and recent studies. A September report from the Center for Economic and Policy Research found evidence that shipyard costs in China decreased between 13 and 20 percent between 2006 and 2012, leading to "substantial misallocation of global production with no significant consumer [gains]."²

Additionally, between 2013 and 2017³, China operated a "cash for clunkers" program that increased subsidies for scrapping obsolete ships by 50 percent to help cut overcapacity in the market. During this period, the Chinese government granted \$247 per gross ton for shipping companies to replace obsolete ships. Chinese shipyards further benefited from this initiative, because the grants were awarded to shipping companies only after replacement orders had been placed in Chinese shipyards. ⁴

On top of the scrapping incentive, the Chinese government offers more overt support for its shipyard industry through cash infusions. One such shipyard, Rongsheng, received state subsidies of up to 1.3 billion yuan, or \$202 million, *per year* from 2010 to 2012. In that same time period, reports also noted that the shipyard had laid off 8,000 workers, and yet would still

² (Kalouptsidi 2017)

³ (Reuters 2015)

^{4 (}Bhattacharya 2013)

need to appeal for more government aid in 2013.⁵ Eventually, even state subsidies could not prop up the yard, which went bankrupt and the facility was removed from the government's white list in 2014.

The Chinese government's "white list" program was introduced by China's Ministry of Industry and Information Technology in 2014 as a way to address the severe overcapacity of shipbuilding facilities. In 2017 it consisted of 70 "reputable" shippards that allow the companies to benefit from prioritized policy support and gain easier access to domestic bank credits. The list is comprised of 37 state-owned facilities, 24-privately owned, seven jointly-owned and two sole proprietorship yards. ⁶

These are examples of direct and indirect government support that distort the international shipbuilding market and disproportionately impact U.S. shippards and their ability to compete internationally. The infusion of cash from governments like South Korea, Japan and China resulted in shippards from those countries building for markets that did not exist, at rates subsidized by those foreign governments.

It is therefore an extreme misrepresentation to compare that blatant manipulation of foreign shipyards to the stability provided by the Jones Act.

Thank you again Chairman Hunter and Ranking Member Garamendi for allowing me to testify alongside such distinguished witnesses today. I look forward to your questions.

s (Reuters 2013)

⁶ (Liang 2017)

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STATEMENT OF BILL VAN LOO, SECRETARY TREASURER MARINE ENGINEERS' BENEFICIAL ASSOCIATION

TO THE

SUBCOMMITTEE ON COAST GUARD AND MARITIME TRANSPORTATION

OF THE

HOUSE TRANSPORTATION AND INFRASTRUCTURE COMMITTEE

ON THE

STATE OF THE U.S. FLAG MARITIME INDUSTRY

JANUARY 17, 2018

Chairman Hunter, Ranking Member Garamendi and Members of the Subcommittee,

My name is Bill Van Loo, Secretary Treasurer of the Marine Engineers' Beneficial Association and I am a 3rd generation professional licensed mariner. I am pleased to present testimony on behalf of the American Maritime Officers, the Marine Engineers' Beneficial Association, the Masters Mates & Pilots, and the Seafarers International Union.

Combined, our unions proudly represent the civilian seafaring men and women who operate U.S.-flag vessels in both the domestic and international trades. Our membership works aboard commercially owned and operated U.S.-flag deep sea and domestic trade vessels, domestic ferries, as well as government owned ships. We continue the patriotic tradition of American mariners serving since the founding of our nation — we remain willing to sail into harm's way in order to support and supply our military overseas.

A strong U.S.-flag fleet and the corresponding base of American merchant mariners is imperative to securing America's economic and national security. Unfortunately, the pool of licensed and unlicensed mariners has shrunk to a critical level. Without governmental action, the military will no longer be able to rely on the all-volunteer U.S. Merchant Marine as our Nation's fourth arm of defense. We are pleased that the Subcommittee has called this hearing and has remained committed ensuring the existence of a vibrant U.S.-flag maritime industry.

"In Peace and War" is the motto of the U.S. Merchant Marine and that motto has been demonstrated in every domestic and international crisis in our nation's history. From the Revolutionary War to World War I to Operation Enduring Freedom and from the evacuation of Manhattan during 9/11 to disaster relief in Haiti, the men and women of the U.S. Merchant Marine have consistently heeded the call to duty. In 1992, General Colin Powell, then-Chairman of the Joint Chiefs of Staff stated: "Fifty years ago, U.S. merchant vessels . . . were battling the frigid seas of the North Atlantic to provide the lifeline to our allies in Europe. The sacrifice of those mariners was essential to keeping us in the war until we could go on the offensive . . . In World War II, enemy attacks sank more than 700 U.S.-flag vessels and claimed the lives of more than 6,000 civilian seafarers . . ." It is worth noting that 700 is almost 10 times the size of the current fleet.

More recently, in 2008, Major General Kathleen Gainey, Commander of the Military Surface Deployment and Distribution Command, stated that "The merchant marine has always been there beside us... There is no amount of thanks that I could give you, because I am here to tell you, having deployed twice, I know how critical it is that equipment and those supplies are delivered on time... You are the fourth arm of defense and you are critical to this nation."

Finally, in May 2015, Rear Admiral Thomas Shannon, Commander of the Military Sealift Command, reinforced the continued need for a U.S.-flag fleet and its American crews to ensure the military security of our Nation. As stated by Admiral Shannon, "It is our U.S.-flag merchant fleet and out mariners that ensure that our soldiers, sailors, airmen, and marines are supplied. From Inchon to Iraq, our mariners and our maritime industry delivered . . . Let us not as a

nation sign away our remaining sealift capacity to non-U.S.-flagged fleets sailed by non-U.S. mariners."

Unfortunately, despite the constant reminders from leaders in the Department of Defense (DoD) that our Nation needs a vibrant civilian U.S. Merchant Marine in order to meet the needs of the military, the commercial sealift capacity and its pool of highly trained and experienced mariners is reaching a diminished point of no return. In March 2016, then Maritime Administrator Paul Jaenichen testified before the Subcommittee on Surface Transportation and Merchant Marine Infrastructure, Safety and Security of the Senate Committee on Commerce, Science, and Transportation. In his statement he noted that the number of vessels in the U.S.-flag foreign trade fleet declined from 106 vessels in 2011 to 79 vessels today.

This loss of ships has resulted in a drastic reduction in the pool of available mariners needed to meet DoD requirements. At Congressional hearings in 2017, General Darren McDew, Commander of the United States Transportation Command, warned that there is currently a shortage of approximately 2,000 mariners. He added that the reduced mariner pool puts our industry on the edge of being able to sustain immediate sealift requirements and that it would not be able to meet sustained requirements beyond the first four to five months of a conflict. It should be emphasized that it is very difficult to gauge the number of civilian mariners immediately available to serve aboard vessels needed in times of war. When merchant mariners are not at sea they have a number of professional and personal obligations and may not be able to drop everything in order to sail. Therefore, any assumption on the number of civilian mariners available should be considered a bare minimum and we should seek to enact policies and programs that will increase the pool significantly.

The shortage of U.S. mariners should be concerning to every American. While fewer seagoing opportunities force mariners to find employment in other fields, it must be emphasized that it takes many years for an individual to gain the education, experience, and sea-time necessary to obtain U.S. Coast Guard-issued licenses and credentials. For instance, it takes a minimum of 10 years to accumulate the skills and experience necessary to obtain a license as a Chief Engineer or Captain. Our country and industry will not be able to recover overnight from the continued downsizing of our fleet and the outsourcing of American maritime jobs. When the call goes out for mariners to once again respond to our Nation's call, we must be prepared to respond.

The maritime unions regularly recruit young people to seek a career in the industry. One program that we are particularly proud of is Military to Maritime where the private industry has worked with this Committee and the military to ensure exiting service members seamless entry into a career at sea. Young people who are considering a career as a merchant mariner must not be discouraged to do so by a lack of government support and recent trends that promise no realistic future for employment.

In order to change course and reverse the downward trend, the U.S. maritime labor organizations vow to work closely with Congress, the Administration and other government

officials. We must protect and fully fund existing programs and create new programs and opportunities that will increase the number of vessels operating under the U.S.-flag and the corresponding shipboard jobs for U.S. mariners. In order to remain available in times of war and to support our Nation's economic security, the U.S.-flag merchant marine must be supported during times of peace. In order to accumulate the necessary sea-going experience to maintain their United States Coast Guard credentials and advance their licenses and endorsements, U.S. citizen mariners must be employed on U.S. flag vessels actively engaged in the carriage of government and commercial cargoes.

The development of new meaningful and realistic maritime policies and programs must be accompanied by a strong reaffirmation from both Congress and the Administration that our country is committed to maintaining a viable and competitive U.S.-flag merchant marine owned and operated by American citizens and crewed by American licensed and unlicensed merchant mariners in order to meet the economic, military and homeland security requirements of our nation. That commitment should be accompanied by a coordinated approach to a national maritime policy that starts with ensuring a steady stream of cargo. Consequently, we offer our sincere appreciation to Chairman Hunter, Ranking Member Garamendi and the Members of your Subcommittee for taking the initiative to schedule this hearing and your leadership in working to find ways in which Federal programs and policies can enhance the performance of the U.S.-flag merchant marine.

CARRIAGE OF U.S. GOVERNMENT GENERATED AND FINANCED CARGO

U.S.-flag cargo preference shipping requirements are an essential means to help ensure the continued availability of the privately-owned U.S.-flag commercial fleet. It is the various cargo preference laws that guarantee a minimal level of cargo for taxpaying American companies who employ American mariners and comply with all the relevant laws and regulations. It is the same companies and mariners that have demonstrated a strong commitment to America's national and economic security.

We strongly urge Congress to restore the U.S.-flag share of P.L. 480 Food for Peace cargoes to the 75 percent level that was in place from 1985, after significant legislative compromises, until 2012 when it was reduced to 50 percent. Food Aid cargoes are the single greatest source of preference cargo and its importance will only increase if DoD cargoes continue to decline. It is no coincidence that the size of the U.S.-flag fleet has shrunk by more than 26 percent since the 2012 reduction of the U.S.-flag share of food aid cargoes along with the significant reduction in military cargo transported as a result of the reduced footprints in Iraq and Afghanistan.

It is important to note that the cost of utilizing U.S.-flag ships for Food Aid cargoes accounts for less than one percent of the program's budget. Further, the cost of reinstating the requirements for food aid cargoes back to 75 percent has been scored at only \$11 million per year.

In May 2011, General Duncan McNabb, then Commander of the United States Transportation Command stated "The movement of U.S. international food aid has been a major contributor to the cargo we have moved under the cargo preference law that our U.S.-flag commercial sealift industry depends on." Similarly, in July 2015 Jeff Marootian, Assistant Secretary for Administration at the United States Department of Transportation stated "Cargo preference is a pillar that ensures America can activate and sustain a sealift fleet anywhere in the world . . . This program, which benefits both the public and private sectors, is less a burden on the taxpayer than the other options to provide the same capability."

Unfortunately, the P.L. 480 program is not the only source of diminishing preference cargoes. The Export-Import Bank has historically been an important source of cargo for the industry. Since 2014 though, the Bank has lacked the quorum needed to approve transactions over \$10 million. The effect is that 80-90 percent of the Bank's activities have been frozen along with the resulting internationally bound cargo subject to U.S.-flag shipping requirements. We implore your colleagues in the Senate to confirm nominees so that the Bank can become operational again.

All too often, federal departments and agencies and government contractors have ignored U.S.flag shipping requirements for the carriage of cargoes paid for by the American taxpayer and Federal government.

Not only are U.S.-flag vessels denied the cargoes that, by law, should be transported by U.S.-flag vessels, but there is no recourse when it is ultimately determined that the law was violated. We implore Congress and the Administration to reinforce, to all Federal agencies and their contracting officers, strict adherence to cargo preference laws.

In 2008, Congress passed the Duncan Hunter National Defense Authorization Act for Fiscal Year 2009. Section 3511 of that legislation included strengthened cargo preference language that made it abundantly clear that the Maritime Administration was the ultimate arbiter of cargo preference. The law further gave the Maritime Administration penalty authority for when they found violations. Unfortunately, the Administration has failed to fully adopt that language. As an industry and a country we must be concerned that the refusal to implement this law indicates an unwillingness to abide by cargo preference laws.

It is important that the Maritime Administration regularly exercise this responsibility and that Congress monitor that enforcement. To this end, Congress should require that the Maritime Administration submit a periodic report to Congress detailing its efforts and actions taken to ensure full compliance with cargo preference laws. Congress should receive a detailed record of the bills of lading that the Maritime Administration is, by law, required to collect on all cargoes subject to cargo preference. This includes cargo that is directly shipped by the government, financed by the government, and cargoes shipped by a government contractor.

While opponents of the cargo preference laws may claim that the ships carrying preference cargo have no military utility, they are flatly wrong. Every ship operating under the U.S.-flag

provides a vital source of employment for the pool of mariners who serve as our Nation's $4^{\rm th}$ arm of defense.

It is very simple. Without cargo, our ships do not sail and our mariners do not stand by.

MARITIME SECURITY PROGRAM

Another key component of American maritime policy is the Maritime Security Program (MSP). This program authorizes a maritime security fleet of 60 privately-owned, militarily-useful U.S.-flag commercial vessels that are supported by an annual stipend intended to help offset the cost of operating under the United States flag.

The MSP is a unique public private partnership that ensures that the DoD has the sealift capability and foreign intermodal networks it needs while saving the American taxpayer the billions of dollars it would take for the government to develop and maintain such capacity itself. Developed under President George H.W. Bush and first implemented under President Bill Clinton, each President and Congress has demonstrated strong support for the program since 1996.

Since 2009, privately-owned U.S.-flag commercial vessels and their civilian U.S. citizen crews have transported more than 90 percent of the sustainment cargo needed to support U.S. military operations and rebuilding programs in Iraq and Afghanistan. Significantly, vessels enrolled in the MSP carried 99 percent of these cargoes. Without the assured U.S.-flag sealift capability provided by the MSP, U.S. troops stationed overseas could find themselves dependent on foreign vessels and foreign crews to deliver the supplies and equipment they need to carry out their mission.

In 2015, Maritime Administrator Paul Jaenichen told this Committee that "The most significant challenge facing the MSP is the declining Department of Defense cargo due to the drawdown of operations in Iraq and Afghanistan coupled with the over 80 percent reduction in personnel and military bases overseas."

Echoing the concern that recent developments have threatened the continued availability of U.S.-flag vessels, U.S. crews and the global logistics systems provided by the MSP, General Paul Selva, former Commander of the United States Transportation Command, told the Senate Committee on Armed Services in March 2015, "The reduction in government impelled cargoes due to the drawdown in Afghanistan and reductions in Food Aid . . . are driving vessel owners to reflag to non-U.S.-flag out of economic necessity . . . With the recent vessel reductions, the mariner base is at a point where future reductions in the U.S.-flag capacity puts out ability to fully activate, deploy, and sustain forces at increased risk."

These factors affect the ability of U.S.-flag operators to keep their vessels under the U.S.-flag and to reinvest in new ships which are long term assets and must meet certain specifications in order to be eligible for the MSP. While government cargoes continue to decline, the MSP allows American ship operators to compete for commercial cargo with vessels that fly "flags of

convenience" and thus have very low labor, safety, and environmental regulations, and enjoy significant tax incentives along with direct state subsidies. Further, in order to ensure a robust national fleet, other countries often require that a certain percentage of commercial cargo entering or exiting their ports be transported on ships flying their national flag and employing their citizens.

We are extremely pleased that Congress, with strong leadership from the Chairman and Ranking Member of this Subcommittee, recently increased the funding authorization for the MSP. This increase, which provides each vessel operating in the program with \$5 million through FY' 2022 rather than previously authorized \$3.1 million, represented an important step in ensuring the viability of the 60 ships operating in the program.

While Congress strongly affirmed support of the program by increasing the authorization, it is important to note that the MSP relies on annual appropriations. As noted by Chairman Hunter and Ranking Member Garamendi as well as a bipartisan group of 77 of their colleagues in a letter to the Appropriations Committee last year, "The Program utilizes existing U.S. maritime private sector capabilities at a fraction of the cost of what it would take if the Federal government were to replicate the vessel capacity and global intermodal systems made available to the Department of Defense by the MSP contractors who continuously develop and maintain modern logistics systems for commercial and defense purposes. The cost to the government of replicating the vessels and intermodal system is estimated at least \$65 billion."

In January 2016, General Darren McDew, Commander of the United States Transportation Command, stated, "As a military professional and senior leader, I think about and plan for what the future may hold and I would tell you we must prepare for the real possibility we will not enjoy the uncontested seas and international support experienced in 1991. If either of those possibilities becomes a reality, and if we remain committed to responding to security incidents around the globe, the only way of guaranteeing we decisively meet our national objectives is with U.S. ships operated by U.S. mariners."

In order to secure the availability of U.S.-flag ships with American mariners whenever needed to assist and supply the forward deployed warfighter, we ask for your help to secure full FY' 2019 funding for the Maritime Security Program at its Congressionally authorized level.

THE JONES ACT

The cornerstone of America's domestic maritime policy is the Jones Act. This body of law requires that vessels engaged in commerce between U.S. ports are owned and crewed by American citizens and built in American shipyards. The oceangoing vessels engaged in domestic commerce provide important employment opportunities for licensed and unlicensed American mariners who are also ready and qualified to serve aboard vessels needed by the Department of Defense. Without the Jones Act, our country would be reliant on foreign companies and foreign mariners, with unfettered access to our inland river systems, to deliver our domestic cargo.

Congress should continue to support the Jones Act as it is a critically important part of our Nation's maritime policy and our national security.

ENCOURAGING THE USE OF U.S.-FLAG VESSELS FOR INTERNATIONAL COMMERCIAL CARGO

The export of strategic American energy assets presents a tremendous opportunity to increase the size of the U.S.-flag commercial fleet and to provide much-needed employment opportunities for American mariners.

We strongly support the efforts of Congressman Garamendi, Congressman Hunter, and Congressman Duncan and their legislation, H.R. 1240 the "Energizing American Maritime Act" that would require up to 30 percent of exports of strategic energy assets to travel on U.S.-flagged vessels.

Further we ask that Congress and the Administration consider any and all ways to incentivize or mandate other commercial cargoes to be shipped on U.S.-flag vessels. The U.S.-flag fleet is currently responsible for only 2 percent of the global U.S. trade. One way this can be accomplished is through the negotiation of bilateral shipping agreements. Congress should give the Administration whatever additional authority it needs to negotiate meaningful bilateral cargo sharing agreements with America's trading partners to provide U.S.-flag vessels with a greater share our foreign trade.

CONCLUSION

We want to ensure that this industry is viable for generations to come. The important role that the U.S. Merchant Marine serves to safeguard our country's military, economic and homeland security cannot be understated.

We are encouraged that the Administration and Congress seem poised to consider comprehensive infrastructure policy. It is important that a renewal of the U.S. Merchant Marine is considered as a part of that discussion. We stand ready to work with you to achieve these objectives.

Thank you.